

Exhibit 6D

Excerpts of July 14, 2014 R. Cline Deposition Transcript

<p style="text-align: right;">Page 1</p> <p>1 IN THE UNITED STATES BANKRUPTCY COURT 2 FOR THE EASTERN DISTRICT OF MICHIGAN 3 4 5 6 In Re:) Chapter 9 7 CITY of DETROIT, MICHIGAN,) Case No. 13-53846 8 Debtor.) Hon. Steven Rhodes 9 _____ 10 11 12 The Videotaped Deposition of ROBERT CLINE, 13 Taken at Jones Day 14 51 Louisiana Avenue, NW 15 Washington, DC 16 Commencing at 9:05 a.m. 17 Monday July 14, 2014, 18 Before Marjorie Peters, RMR, CRR 19 20 21 22 23 24 25</p>	<p style="text-align: right;">Page 3</p> <p>1 For Creditor National Public Finance Guarantee Corp. 2 3 JEFFREY S. BEELAERT, ESQ. 4 SIDLEY AUSTIN, LLP 5 1501 K Street, N.W. 6 Washington D.C. 20005 7 8 For Creditor Financial Guaranty Insurance Company: 9 PRAVIN R. PATEL, ESQ. 10 WEIL GOTSHAL & MANGES, LLP 11 1395 Brickell Avenue 12 Suite 1200 13 Miami, Florida 33131 14 15 Also Appearing: 16 Jonathan Perry, Videographer 17 Marguerette Hosbach, Ernst & Young, via telephone 18 19 20 21 22 23 24 25</p>
<p style="text-align: right;">Page 2</p> <p>1 APPEARANCES: 2 For the Debtor City of Detroit and the witness: 3 GEOFFREY S. STEWART, ESQ., 4 SARAH A. HUNGER, ESQ., 5 CHRISTOPHER DIPOMPEO, ESQ. 6 JONES DAY 7 51 Louisiana Avenue, N.W. 8 Washington, D.C. 20001-2113 9 10 11 For the Official Committee of Retirees: 12 DAN BARNOWSKI, ESQ. 13 DENTONS US, LLP 14 1301 K Street, N.W. 15 Suite 600, East Tower 16 Washington, D.C. 20005-3364 17 18 For Syncora Guarantee, Inc., and Syncora Capital 19 Assurance, Inc. 20 21 DOUGLAS G. SMITH, P.C. 22 KIRKLAND & ELLIS, LLP 23 300 North LaSalle 24 Chicago, Illinois 60654 25 26 For Creditor Assured Guaranty: 27 LISA SCHAPIRA, ESQ. 28 CHADBOURNE & PARKE, LLP 29 30 Rockefeller Plaza 30 New York, New York 10112 31 32 33 34 35</p>	<p style="text-align: right;">Page 4</p> <p>1 I N D E X 2 WITNESS PAGE 3 Robert Cline 6 4 5 EXHIBITS PAGE 6 Exhibit No. 1 112 7 Exhibit No. 2 149 8 Exhibit No. 3 164 9 Exhibit No. 4 179 10 Exhibit No. 5 278 11 Exhibit No. 6 280 12 Exhibit No. 7 281 13 Exhibit No. 8 285 14 Exhibit No. 9 292 15 16 17 18 19 20 21 22 23 24 25</p>

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<p style="text-align: right;">Page 5</p> <p>1 R. CLINE</p> <p>2 THE VIDEOGRAPHER: This is disk number one</p> <p>3 of the video deposition of Robert Cline taken in</p> <p>4 the matter of the City of Detroit, Michigan in the</p> <p>5 U.S. Bankruptcy Court for the Eastern District of</p> <p>6 Michigan. Chapter 9, Case No. 13-53846.</p> <p>7 We are at the offices of Jones Day, 51</p> <p>8 Louisiana Avenue Northwest, Washington, D.C. The</p> <p>9 time is approximately 9:04 a.m. The date is July</p> <p>10 14th, 2014. The court reporter is Marjorie Peters</p> <p>11 and the videographer is Jonathan Perry, both here</p> <p>12 on behalf of Elisa Dreier Reporting Company.</p> <p>13 Would counsel please introduce yourselves</p> <p>14 and state whom you represent.</p> <p>15 MR. SMITH: Doug Smith for Syncora.</p> <p>16 MR. STEWART: Geoffrey Stewart and Sarah</p> <p>17 Hunger of Jones Day for the City of Detroit and for</p> <p>18 the witness.</p> <p>19 MS. SCHAPIRA: Lisa Schapira from</p> <p>20 Chadbourne & Parke for Assured Guaranty.</p> <p>21 MR. BEELAERT: Jeff Beelaert from Sidley</p> <p>22 Austin for National.</p> <p>23 MR. PATEL: Pravin R. Patel from Weil</p> <p>24 Gotshal & Manges representing Financial Guaranty</p> <p>25 Insurance Company.</p>	<p style="text-align: right;">Page 7</p> <p>1 R. CLINE</p> <p>2 revenue estimates for the City of Detroit.</p> <p>3 Q. Okay. And what is your area of expertise?</p> <p>4 A. For my professional career, I've worked in</p> <p>5 public finance, the economic aspects of public finance.</p> <p>6 Q. Okay. So, you would be an expert in public</p> <p>7 finance and the economic aspects of public finance; is</p> <p>8 that correct?</p> <p>9 A. My professional career has been doing state</p> <p>10 tax work, whether it's revenue estimating, tax bill</p> <p>11 analysis or forecasting.</p> <p>12 Q. Okay. You wouldn't hold yourself out as an</p> <p>13 expert in urban policy, correct?</p> <p>14 A. I would not.</p> <p>15 Q. And you wouldn't hold yourself as an expert on</p> <p>16 health benefits?</p> <p>17 A. I would not.</p> <p>18 Q. You're not an expert on government in general?</p> <p>19 A. I'm not.</p> <p>20 Q. You're not an expert on blight reduction?</p> <p>21 A. No, I'm not.</p> <p>22 Q. Not an expert on art valuation?</p> <p>23 A. No.</p> <p>24 Q. Not an expert on pensions?</p> <p>25 A. No.</p>
<p style="text-align: right;">Page 6</p> <p>1 R. CLINE</p> <p>2 THE VIDEOGRAPHER: And would the reporter</p> <p>3 swear in the witness, please.</p> <p>4 ROBERT CLINE,</p> <p>5 a witness, having been first duly sworn, was examined and</p> <p>6 testified as follows:</p> <p>7 BY MR. SMITH:</p> <p>8 Q. Good morning, Mr. Cline. You have been</p> <p>9 deposed before; is that correct, or not?</p> <p>10 A. I have testified in a court case before.</p> <p>11 Q. Okay. Have you ever given a deposition?</p> <p>12 A. I don't remember. I have prepared reports. I</p> <p>13 don't remember whether I actually participated in this</p> <p>14 type of deposition.</p> <p>15 Q. Okay. I'll be asking you a series of</p> <p>16 questions, and you will let me know if you don't</p> <p>17 understand any of my questions?</p> <p>18 A. I will.</p> <p>19 Q. Okay. And feel free to take a break whenever</p> <p>20 you need to, okay?</p> <p>21 A. All right.</p> <p>22 Q. The report you filed, your report in this</p> <p>23 matter, you're acting as an expert in tax policy; is that</p> <p>24 correct?</p> <p>25 A. My responsibility in this project was to do</p>	<p style="text-align: right;">Page 8</p> <p>1 R. CLINE</p> <p>2 Q. Not an expert on government grants?</p> <p>3 A. No.</p> <p>4 Q. Do you hold yourself out as an expert on</p> <p>5 casinos or wagering revenue?</p> <p>6 A. I do not.</p> <p>7 Q. Do you hold yourself out as an expert on state</p> <p>8 revenue sharing?</p> <p>9 A. I've studied state revenue sharing.</p> <p>10 Q. In what context?</p> <p>11 A. The State of Michigan, I was responsible for</p> <p>12 various revenue estimates.</p> <p>13 Q. And other than that, do you have any</p> <p>14 experience with state revenue sharing?</p> <p>15 A. I do not.</p> <p>16 Q. You're not an expert on Detroit's government,</p> <p>17 correct?</p> <p>18 A. I am not.</p> <p>19 Q. Not an expert on information technology?</p> <p>20 A. No.</p> <p>21 Q. Not an expert on transportation systems.</p> <p>22 A. No.</p> <p>23 Q. Have you ever done forecasting for a city?</p> <p>24 A. I have not done forecasting for a city.</p> <p>25 Q. And you're not an expert in accounting, are</p>

<p style="text-align: right;">Page 9</p> <p>1 R. CLINE</p> <p>2 you?</p> <p>3 A. I am not.</p> <p>4 Q. You're not an expert on Chapter 9</p> <p>5 bankruptcies?</p> <p>6 A. No, I'm not.</p> <p>7 Q. You're not a restructuring expert, correct?</p> <p>8 A. No.</p> <p>9 Q. You're not holding yourself out as a legal</p> <p>10 expert, correct?</p> <p>11 A. No, I'm not.</p> <p>12 Q. And you're not a lawyer, correct?</p> <p>13 A. I am not.</p> <p>14 Q. Have you ever done a tax forecast for a</p> <p>15 wagering tax before?</p> <p>16 A. No, I have not.</p> <p>17 Q. And have you ever done a tax forecast for a</p> <p>18 corporate tax?</p> <p>19 A. I have for the State of Michigan, and I did</p> <p>20 for the State of Minnesota.</p> <p>21 Q. Okay. But in the context of corporate tax</p> <p>22 revenues to a city, you haven't done a forecast?</p> <p>23 A. I have not.</p> <p>24 Q. You haven't done a municipal income tax</p> <p>25 forecast before, have you?</p>	<p style="text-align: right;">Page 11</p> <p>1 R. CLINE</p> <p>2 that. I don't recall.</p> <p>3 Q. Okay. But sitting here today, you can't</p> <p>4 identify any forecasts you ever did that was longer than</p> <p>5 six years?</p> <p>6 A. I do not remember one.</p> <p>7 Q. And I mean, just to get -- make the record</p> <p>8 clear, the standard forecast for purposes of tax</p> <p>9 forecasting in Michigan state was four years; is that</p> <p>10 correct?</p> <p>11 A. I believe it is. The budget cycle would be</p> <p>12 either two years or four years of forecasts.</p> <p>13 Q. Okay. So, the standard forecast length in</p> <p>14 Michigan and the accepted forecast length for tax</p> <p>15 forecasting is either two or four years; correct?</p> <p>16 A. Correct.</p> <p>17 Q. And you previously worked as an expert in one</p> <p>18 case; is that correct?</p> <p>19 A. I did.</p> <p>20 Q. And is that the only case you worked as an</p> <p>21 expert?</p> <p>22 A. As I can recall, that was the only case where</p> <p>23 I testified as an expert.</p> <p>24 Q. And when you testified as an expert, it wasn't</p> <p>25 in forecasting, correct?</p>
<p style="text-align: right;">Page 10</p> <p>1 R. CLINE</p> <p>2 A. I have not.</p> <p>3 Q. You haven't done a municipal property tax</p> <p>4 forecast, have you?</p> <p>5 A. I have not.</p> <p>6 Q. Have you ever done a tax forecast over a</p> <p>7 period of -- as long as ten years?</p> <p>8 A. I have not.</p> <p>9 Q. Okay. Typically, what was the length of time</p> <p>10 of the forecasts you have done previously?</p> <p>11 A. The forecasts were usually tied to the budget</p> <p>12 cycle, determined by the legislature. You might go out</p> <p>13 four to six years.</p> <p>14 Q. Okay. So, the standard forecast length that</p> <p>15 Michigan used was four to six years?</p> <p>16 A. I would say it was four, in Michigan.</p> <p>17 Q. Okay. So, the generally accepted standard</p> <p>18 length of a forecast in Michigan was four years?</p> <p>19 A. That was the forecast tied to the budget</p> <p>20 cycle. You would do forecasts longer term for other</p> <p>21 types of projects.</p> <p>22 Q. Okay. So, and the longest term forecast you</p> <p>23 ever performed in the ordinary course of your work as a</p> <p>24 forecaster was six years; is that correct?</p> <p>25 A. I might have done forecasts that went beyond</p>	<p style="text-align: right;">Page 12</p> <p>1 R. CLINE</p> <p>2 A. It was not.</p> <p>3 Q. When did you begin your work for Detroit?</p> <p>4 A. It would have been in the spring, I believe,</p> <p>5 of 2013.</p> <p>6 Q. Your work in this case, you have prepared some</p> <p>7 expert opinions for the confirmation hearing, correct?</p> <p>8 A. I have -- I don't understand the question.</p> <p>9 Q. Okay. Well, you know you filed an expert</p> <p>10 report.</p> <p>11 A. Correct.</p> <p>12 Q. You know that, right?</p> <p>13 A. Correct.</p> <p>14 Q. And you're acting as an expert who is going to</p> <p>15 testify at the confirmation hearing?</p> <p>16 A. I understand that, yes.</p> <p>17 Q. Okay. And I'm just wondering, other than your</p> <p>18 work as an expert in the testimony you're going to give</p> <p>19 at the confirmation hearing, have you done any other work</p> <p>20 for the City of Detroit?</p> <p>21 A. If you could clarify that question. Are you</p> <p>22 referring to all of the work I have done as an EY</p> <p>23 employee for the City of Detroit?</p> <p>24 Q. Well, yes. Basically, what I'm trying to</p> <p>25 figure out is I have a copy of your expert report, and</p>

<p style="text-align: right;">Page 13</p> <p>1 R. CLINE</p> <p>2 you've talked about your forecasting work that you have</p> <p>3 done in order to provide expert opinions in this case.</p> <p>4 So, I have seen that already, and I'm just trying to</p> <p>5 understand whether you did any other work for the --</p> <p>6 A. No.</p> <p>7 Q. -- City of Detroit.</p> <p>8</p> <p>9</p> <p>10 A. No. The work that we did was the forecasting,</p> <p>11 10-year forecasts for the City of Detroit, plus an</p> <p>12 extension beyond that period.</p> <p>13 Q. Okay. So all of the work that you've done for</p> <p>14 the City of Detroit is reflected in your expert report</p> <p>15 that --</p> <p>16 MR. STEWART: Objection.</p> <p>17 MR. SMITH: -- that you've provided,</p> <p>18 correct?</p> <p>19 THE WITNESS: There is a very extensive</p> <p>20 amount of material that lies behind those summary</p> <p>21 numbers.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. Okay. Well, let me rephrase the question,</p> <p>24 then. All of the work that you've done for the City of</p> <p>25 Detroit is reflected in your expert report or the</p>	<p style="text-align: right;">Page 15</p> <p>1 R. CLINE</p> <p>2 done for the City of Detroit relates to offering expert</p> <p>3 opinions in this case; is that fair?</p> <p>4 MR. STEWART: Objection.</p> <p>5 THE WITNESS: I don't think that's an</p> <p>6 accurate description.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. Well, the only work you've done in this case</p> <p>9 relates to doing the forecasting work that's the subject</p> <p>10 of your expert opinions in this case; correct?</p> <p>11 A. What we were asked to do is to provide a</p> <p>12 10-year forecast of expected revenues from the major tax</p> <p>13 sources for the City of Detroit.</p> <p>14 Q. And the reason you were asked to provide that</p> <p>15 was for purposes of a confirmation hearing and you're</p> <p>16 testifying as an expert, correct?</p> <p>17 A. I don't think that's an accurate description.</p> <p>18 Q. What other purpose is that forecast being used</p> <p>19 for; any other purpose?</p> <p>20 A. To my knowledge, it's been part of the</p> <p>21 budgetary discussions for the City of Detroit.</p> <p>22 Q. So, you've done some forecasting work that the</p> <p>23 results of which are reflected in your expert report that</p> <p>24 the City has also used for budgetary purposes; is that</p> <p>25 fair?</p>
<p style="text-align: right;">Page 14</p> <p>1 R. CLINE</p> <p>2 supporting materials that you produced with it, correct?</p> <p>3 MR. STEWART: Objection.</p> <p>4 THE WITNESS: I don't believe that's</p> <p>5 correct.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Okay. What materials haven't we been provided</p> <p>8 that reflect your work?</p> <p>9 A. I don't know the answer to that question.</p> <p>10 Q. Well, I'm trying to -- you just told me that</p> <p>11 you have prepared some materials, right? I'm trying to</p> <p>12 figure out if we have got them all. That's a fair</p> <p>13 question, right?</p> <p>14 MR. STEWART: So, what's the question?</p> <p>15 MR. SMITH: The question is, have we been</p> <p>16 provided all of the materials that reflect your</p> <p>17 work in this case.</p> <p>18 THE WITNESS: I don't know the answer to</p> <p>19 that question.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. Okay. So, you can't represent to the Court</p> <p>22 that we've been provided a complete set of the</p> <p>23 materials --</p> <p>24 A. I cannot personally represent that.</p> <p>25 Q. But just to clarify, the only work that you've</p>	<p style="text-align: right;">Page 16</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: I do not know how the</p> <p>4 information that we have provided has been used.</p> <p>5 It's beyond my knowledge.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Okay. So, the only thing you know is that</p> <p>8 you've provided expert opinions reflected in your expert</p> <p>9 report, and that's the work you've done for the City of</p> <p>10 Detroit?</p> <p>11 MR. STEWART: Objection.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. Correct?</p> <p>14 A. We prepared revenue estimates over a 10-year</p> <p>15 period for the City of Detroit.</p> <p>16 Q. Okay. And that's the only work you've done</p> <p>17 for the City of Detroit, correct?</p> <p>18 A. That has been my responsibility in this.</p> <p>19 Q. Okay. And your forecasting work that you just</p> <p>20 referenced is reflected in your expert report?</p> <p>21 A. It is a summary of the results of the work we</p> <p>22 did.</p> <p>23 Q. Okay. You weren't involved in putting</p> <p>24 together forecasts for use with the creditor proposal?</p> <p>25 A. Not to my knowledge.</p>

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<p style="text-align: right;">Page 17</p> <p>1 R. CLINE</p> <p>2 Q. Did you know if there was anybody else at</p> <p>3 Ernst & Young who worked on tax issues for purposes of</p> <p>4 the creditor proposal?</p> <p>5 A. Not to my knowledge.</p> <p>6 Q. And do you know if the City has sought out</p> <p>7 experts other than yourself to testify in the area of</p> <p>8 taxes?</p> <p>9 A. I am not familiar with anyone else.</p> <p>10 Q. Did you personally calculate the numbers that</p> <p>11 are in your expert report, or did someone else do the</p> <p>12 actual, you know, number calculations that are reflected?</p> <p>13 A. My responsibility was to construct the general</p> <p>14 framework of the estimating model and to evaluate the</p> <p>15 results at each step of the way.</p> <p>16 Q. Okay. So, you didn't do the actual</p> <p>17 calculations that are reflected in your expert report; is</p> <p>18 that fair?</p> <p>19 A. I do have a staff with -- several staff</p> <p>20 members who worked on the actual estimation.</p> <p>21 Q. How many staff members assisted you in your --</p> <p>22 A. I would say --</p> <p>23 Q. -- in developing your expert opinions?</p> <p>24 A. -- we may have three staff members in addition</p> <p>25 to myself.</p>	<p style="text-align: right;">Page 19</p> <p>1 R. CLINE</p> <p>2 MR. SMITH: Okay.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. Did you do the calculations in your expert</p> <p>5 report or did staff members do them?</p> <p>6 A. I would say staff members constructed the</p> <p>7 mechanics of the model.</p> <p>8 Q. Okay. And you haven't -- have you ever</p> <p>9 constructed the mechanics of a forecasting model before?</p> <p>10 A. I have.</p> <p>11 Q. But you didn't do it in this case; correct?</p> <p>12 A. I don't think that's an accurate summary.</p> <p>13 Q. Well, I'm trying to get at who did the actual</p> <p>14 computations in your report?</p> <p>15 A. I worked very closely with my staff at all</p> <p>16 phases of the estimation process.</p> <p>17 Q. Okay, but did you actually personally do the</p> <p>18 computations that appear in the report?</p> <p>19 A. I personally reviewed each of the spreadsheets</p> <p>20 that were used to do the calculations.</p> <p>21 Q. And who actually created the spreadsheets that</p> <p>22 did the calculations that appear in your report?</p> <p>23 A. Under my direction, my staff constructed the</p> <p>24 individual spreadsheets.</p> <p>25 Q. Ever forecast inflation rates before?</p>
<p style="text-align: right;">Page 18</p> <p>1 R. CLINE</p> <p>2 Q. Who are those --</p> <p>3 MR. STEWART: And you have to let him</p> <p>4 finish his question and then pause so I can object</p> <p>5 before you start your answer, or you end up talking</p> <p>6 over each other which complicates the reporter's</p> <p>7 job.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Who are the staff members that assisted in</p> <p>10 formulating your expert opinions?</p> <p>11 A. Caroline Sallee and Katie Ballard. Those were</p> <p>12 the two principal people.</p> <p>13 Q. And so it's fair to say that you didn't</p> <p>14 personally calculate the numbers in your report; it was</p> <p>15 people on your staff, correct?</p> <p>16 A. Could you define "calculate" for me.</p> <p>17 Q. Well, there are numbers that are plugged into</p> <p>18 the model, right, and then out pops some results, right?</p> <p>19 MR. STEWART: Objection.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. And I'm wondering, did you actually do any of</p> <p>22 the computations that are reflected in your expert</p> <p>23 report?</p> <p>24 MR. STEWART: That's a compound question.</p> <p>25 Which one do you want answered?</p>	<p style="text-align: right;">Page 20</p> <p>1 R. CLINE</p> <p>2 A. I have.</p> <p>3 Q. Have you ever forecasted municipal population</p> <p>4 levels before?</p> <p>5 A. I have not.</p> <p>6 Q. Have you ever forecast population levels of</p> <p>7 individuals commuting into a city to do work?</p> <p>8 A. I have not.</p> <p>9 Q. You never forecast population levels of</p> <p>10 individuals living inside a city but working outside of</p> <p>11 it?</p> <p>12 A. I have not.</p> <p>13 Q. Have you ever done any economic forecasting to</p> <p>14 assess income levels?</p> <p>15 A. I don't understand the question.</p> <p>16 Q. Have you ever forecasted income levels of a</p> <p>17 population over time?</p> <p>18 A. What do you mean by income levels?</p> <p>19 Q. Well, the levels -- there's a population of</p> <p>20 working people, and they're receiving income from doing</p> <p>21 work. Have you ever forecast what their income will be</p> <p>22 in the future?</p> <p>23 A. As tax research director, I was responsible</p> <p>24 for forecasting taxable income for taxpayers.</p> <p>25 Q. The State of Michigan, when you worked there,</p>

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<p style="text-align: right;">Page 21</p> <p>1 R. CLINE</p> <p>2 they don't do any forecasting for the City of Detroit, do</p> <p>3 they?</p> <p>4 A. Not that I know of.</p> <p>5 Q. Ever forecast a city employment growth rate?</p> <p>6 A. No, I have not.</p> <p>7 Q. Ever forecast wage growth rate in a city?</p> <p>8 A. Do you mean prior to the Detroit project?</p> <p>9 Q. Prior, yes.</p> <p>10 A. No, I have not.</p> <p>11 Q. But you're doing that in your report here; is</p> <p>12 that fair?</p> <p>13 A. It is part of the analysis that we did.</p> <p>14 Q. Ever forecast income tax rates for a city?</p> <p>15 A. No, I have not.</p> <p>16 Q. Ever forecast corporate tax rates for a city?</p> <p>17 A. No, I have not.</p> <p>18 Q. Ever forecast property tax rates for a city?</p> <p>19 A. I may have done some local work in Michigan</p> <p>20 for a city related to property taxes.</p> <p>21 Q. Which city was that?</p> <p>22 A. Holland, Michigan.</p> <p>23 Q. And what work did you do?</p> <p>24 A. I was a member of the public school board. I</p> <p>25 may have looked at property tax forecasts for the school</p>	<p style="text-align: right;">Page 23</p> <p>1 R. CLINE</p> <p>2 A. They do.</p> <p>3 Q. And among the factors that could influence</p> <p>4 utility tax rates are use of the utility, the rate of</p> <p>5 collection of the taxes, the general economic conditions,</p> <p>6 correct?</p> <p>7 A. Correct.</p> <p>8 Q. Anything else you can think of?</p> <p>9 A. I think those would be key drivers.</p> <p>10 Q. But do you -- can you think of other key</p> <p>11 drivers?</p> <p>12 A. I have no others.</p> <p>13 Q. Have you ever forecast a utility tax revenue</p> <p>14 before?</p> <p>15 A. I may have as part of the budget for either</p> <p>16 Michigan or Minnesota; I don't recall.</p> <p>17 Q. Okay. But a municipal utility tax, have you</p> <p>18 ever forecast that?</p> <p>19 A. No, I have not.</p> <p>20 Q. I wanted to ask you about some of the inputs</p> <p>21 from your model. There are various inputs that you use</p> <p>22 in your model to do your forecasting, correct?</p> <p>23 A. Correct.</p> <p>24 Q. And many of the inputs that you use in your</p> <p>25 model are inputs that you've taken from other people, or</p>
<p style="text-align: right;">Page 22</p> <p>1 R. CLINE</p> <p>2 district.</p> <p>3 Q. Okay. But you didn't do any --</p> <p>4 MR. STEWART: You've got to let him finish</p> <p>5 his answer before you ask your next question. He</p> <p>6 had not really finished.</p> <p>7 MR. SMITH: Okay. You didn't do any kind</p> <p>8 of forecasting when you're sitting on the school</p> <p>9 board in Holland, Michigan?</p> <p>10 THE WITNESS: I reviewed the forecast</p> <p>11 prepared by the school district.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. Do you agree that wage earning tax revenue</p> <p>14 depends on a number of factors?</p> <p>15 A. Yes, I would agree with that.</p> <p>16 Q. Would it depend on the level of gambling, the</p> <p>17 level of revenue at the casinos and the wagering tax</p> <p>18 rate?</p> <p>19 A. Yes.</p> <p>20 Q. Any other factors that might influence the</p> <p>21 wagering tax?</p> <p>22 A. I believe you accurately described the</p> <p>23 calculation of the tax revenue figure.</p> <p>24 Q. Would it be fair to say that the utility tax</p> <p>25 revenues also depend on a number of factors?</p>	<p style="text-align: right;">Page 24</p> <p>1 R. CLINE</p> <p>2 other sources, correct?</p> <p>3 A. Some of them did come from other sources.</p> <p>4 Q. And what are some of the expert sources that</p> <p>5 you're relying on for inputs in your model?</p> <p>6 MR. STEWART: Objection.</p> <p>7 THE WITNESS: We used a number of sources</p> <p>8 as input to the model and in determining the</p> <p>9 parameters of the model.</p> <p>10 BY MR. SMITH:</p> <p>11 Q. And for example, you use expert -- some</p> <p>12 materials from expert economists at Michigan to --</p> <p>13 A. We used the latest -- at that point in time,</p> <p>14 the latest available statewide forecast from the research</p> <p>15 seminar in quantitative economics and consensus forecast</p> <p>16 for the State.</p> <p>17 Q. And those are forecasts that are created by</p> <p>18 experts other than yourself?</p> <p>19 A. They're created by economists that work for</p> <p>20 the State of Michigan, or --</p> <p>21 Q. And --</p> <p>22 A. -- or are working with the State of Michigan.</p> <p>23 Q. And are there any other sources that you're</p> <p>24 relying on that are created by experts other than</p> <p>25 yourself?</p>

Pages 21 to 24

<p style="text-align: right;">Page 25</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: I'm not sure I understand</p> <p>4 what you mean.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. Well, I mean, here's another example. You're</p> <p>7 relying on the forecasts that have been created in this</p> <p>8 case for the City of Detroit by experts other than</p> <p>9 yourself, such as Mr. Malhotra, correct?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: The economic forecast I was</p> <p>12 referring to was created for the State of Michigan.</p> <p>13 BY MR. SMITH:</p> <p>14 Q. No, I know. I'm just trying to found out what</p> <p>15 sources you've used. That's one source, correct?</p> <p>16 A. Correct.</p> <p>17 Q. Another thing that you say in your expert</p> <p>18 report that you're relying on is Mr. Malhotra's forecast</p> <p>19 for the City of Detroit. Do you recall that?</p> <p>20 A. I don't recall saying that in the report.</p> <p>21 Q. Did you write your report?</p> <p>22 A. I did work with...</p> <p>23 Q. Why is your report written in the third person</p> <p>24 talking about Mr. Cline all the time?</p> <p>25 A. I'm not sure.</p>	<p style="text-align: right;">Page 27</p> <p>1 R. CLINE</p> <p>2 A. We did receive information from the City of</p> <p>3 Detroit.</p> <p>4 Q. And what information did you rely on from the</p> <p>5 City?</p> <p>6 A. We relied upon their actual tax collection</p> <p>7 information, and their update of the flow of revenue</p> <p>8 collections.</p> <p>9 Q. And you're aware that there have been a number</p> <p>10 of independent experts who have criticized the City of</p> <p>11 Detroit's recordkeeping as unreliable, correct?</p> <p>12 MR. STEWART: Objection.</p> <p>13 THE WITNESS: I'm not aware of that.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. Have you done any investigation to look into</p> <p>16 assessments of the City of Detroit's recordkeeping?</p> <p>17 A. No.</p> <p>18 Q. So, you haven't done any analysis or testing</p> <p>19 to ensure the reliability of the information you were</p> <p>20 provided from the City of Detroit for your model?</p> <p>21 MR. STEWART: Objection.</p> <p>22 THE WITNESS: We worked very closely with</p> <p>23 the City of Detroit to clarify and understand the</p> <p>24 information that was provided to us.</p> <p>25 BY MR. SMITH:</p>
<p style="text-align: right;">Page 26</p> <p>1 R. CLINE</p> <p>2 Q. The Michigan employment growth rate; did you</p> <p>3 create that input to your model, or did you derive that</p> <p>4 from somebody else?</p> <p>5 A. It was a combination of beginning with the</p> <p>6 forecast, the consensus forecast for the State of</p> <p>7 Michigan. For the out years when that forecast was not</p> <p>8 available, EY provided the forecast.</p> <p>9 Q. When you say EY provided the forecast, who</p> <p>10 provided it?</p> <p>11 A. My shop.</p> <p>12 Q. The ratio of Detroit employment to Michigan</p> <p>13 employment, who provided that number?</p> <p>14 A. I believe we calculated that number.</p> <p>15 Q. The lag of Detroit's recovery behind the</p> <p>16 Michigan recovery; who calculated that?</p> <p>17 A. I believe that was part of our analysis.</p> <p>18 Q. The Detroit population growth rate; where did</p> <p>19 that come from?</p> <p>20 A. I believe it originally came from SEMCOG as</p> <p>21 reported in -- I believe it's Detroit City -- Detroit</p> <p>22 First City Organization that has done economic analysis</p> <p>23 of the City.</p> <p>24 Q. Did you rely on information from the City of</p> <p>25 Detroit for your analysis?</p>	<p style="text-align: right;">Page 28</p> <p>1 R. CLINE</p> <p>2 Q. But you didn't do any independent analysis or</p> <p>3 testing to verify the accuracy of the information</p> <p>4 provided to you by the City, correct?</p> <p>5 A. I did not.</p> <p>6 Q. And nobody on your team did, correct, as far</p> <p>7 as you're aware?</p> <p>8 A. Not that I know of.</p> <p>9 Q. The -- did you rely on information provided by</p> <p>10 Conway & MacKenzie?</p> <p>11 A. Not to my knowledge.</p> <p>12 Q. Were there any consultants for the City that</p> <p>13 you relied on for information for your analysis?</p> <p>14 A. Beyond the EY team?</p> <p>15 Q. Yeah. Beyond the EY team.</p> <p>16 A. Not that I know of.</p> <p>17 Q. Who on the EY team did you rely on for</p> <p>18 information for your analysis?</p> <p>19 A. A number of folks in working with the City of</p> <p>20 Detroit.</p> <p>21 Q. Like who?</p> <p>22 A. Gaurav was our primary contact.</p> <p>23 Q. And Mr. Malhotra?</p> <p>24 A. Mr. Malhotra.</p> <p>25 Q. Anybody else?</p>

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<p style="text-align: right;">Page 29</p> <p>1 R. CLINE</p> <p>2 A. There were others.</p> <p>3 Q. And who were the others?</p> <p>4 A. I don't have a full list of names.</p> <p>5 Q. Would it be fair to say that you've relied on</p> <p>6 information from a number of people whose identities are</p> <p>7 unknown to you?</p> <p>8 MR. STEWART: Objection.</p> <p>9 THE WITNESS: I would not agree with that</p> <p>10 statement.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. Okay. Can you -- other than Mr. Malhotra,</p> <p>13 you -- there's other people, and can you identify any of</p> <p>14 them?</p> <p>15 A. I would have to get that list of names for</p> <p>16 you.</p> <p>17 Q. Okay. So, sitting here today, you can't</p> <p>18 identify all of the people who you relied on for</p> <p>19 information for your model, correct?</p> <p>20 MR. STEWART: Objection.</p> <p>21 THE WITNESS: No, I cannot.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. And in general, you didn't do anything to</p> <p>24 independently verify the accuracy or reliability of the</p> <p>25 information you were provided by other people for your</p>	<p style="text-align: right;">Page 31</p> <p>1 R. CLINE</p> <p>2 THE WITNESS: I'm not sure what that</p> <p>3 process would look like.</p> <p>4 BY MR. SMITH:</p> <p>5 Q. Well, for example, you didn't go back and look</p> <p>6 at records -- well, how many hours did you spend on your</p> <p>7 work in this case?</p> <p>8 A. I do not know what the total is.</p> <p>9 Q. Can you give me a ballpark?</p> <p>10 A. I really cannot.</p> <p>11 Q. Was it more than 100 hours?</p> <p>12 A. As I say, I do not know what the exact number</p> <p>13 of hours is.</p> <p>14 Q. Would it be fair to say that there were a</p> <p>15 number of individuals who were not designated as experts,</p> <p>16 haven't submitted an expert report in this case, whose</p> <p>17 opinions you relied on as inputs to your model?</p> <p>18 A. I don't understand what the word "expert"</p> <p>19 means.</p> <p>20 Q. Well, you understand that there's some people</p> <p>21 that have submitted expert reports, like Mr. Malhotra,</p> <p>22 Miss Saltee, correct?</p> <p>23 A. Yes, I understand that they did submit</p> <p>24 reports.</p> <p>25 Q. Okay. And by "expert," I'm talking about the</p>
<p style="text-align: right;">Page 30</p> <p>1 R. CLINE</p> <p>2 forecasting models, correct?</p> <p>3 A. We evaluated all of the information we were</p> <p>4 provided to see if we thought it was reliable in the</p> <p>5 sense that it looked consistent over time, there weren't</p> <p>6 unexplained differences. We looked carefully at all of</p> <p>7 the information that's provided to us.</p> <p>8 Q. But you didn't do any independent testing or</p> <p>9 analysis to go back and actually check or audit the</p> <p>10 information you were provided in order to ensure that it</p> <p>11 was reliable, correct?</p> <p>12 MR. STEWART: Objection.</p> <p>13 THE WITNESS: We were not asked to audit</p> <p>14 figures for the analysis.</p> <p>15 BY MR. SMITH:</p> <p>16 Q. And so, you didn't do it, correct?</p> <p>17 A. As I mentioned, we carefully reviewed all of</p> <p>18 the information that we were given before we plugged it</p> <p>19 into the model.</p> <p>20 Q. Okay. I understand you reviewed information,</p> <p>21 but you didn't go back and check the information against</p> <p>22 the sources of the information to ensure that it was</p> <p>23 reliably reported before you plugged it into your model,</p> <p>24 correct?</p> <p>25 MR. STEWART: Objection.</p>	<p style="text-align: right;">Page 32</p> <p>1 R. CLINE</p> <p>2 people that submitted reports in this case --</p> <p>3 A. Yes.</p> <p>4 Q. -- for the City.</p> <p>5 A. I'm aware of those reports.</p> <p>6 Q. Okay. So, we're on the same page about how</p> <p>7 I'm using the term expert, correct?</p> <p>8 A. I believe that I do understand.</p> <p>9 Q. But there were a number of individuals who</p> <p>10 were not submitting reports in this case who you relied</p> <p>11 on for your analysis, correct?</p> <p>12 A. There are a number of people who provided us</p> <p>13 inputs for our analysis, including people at the State</p> <p>14 level as well as the City level.</p> <p>15 Q. And those are experts in their fields, but</p> <p>16 they're not people who have submitted expert reports in</p> <p>17 this case, correct?</p> <p>18 MR. STEWART: Objection.</p> <p>19 THE WITNESS: I don't know -- excuse me.</p> <p>20 MR. STEWART: Go ahead.</p> <p>21 THE WITNESS: I don't know what "expert"</p> <p>22 means in that context.</p> <p>23 BY MR. SMITH:</p> <p>24 Q. Did you cooperate closely with people from the</p> <p>25 State in developing your analysis?</p>

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<p style="text-align: right;">Page 37</p> <p>1 R. CLINE</p> <p>2 information as we could.</p> <p>3 Q. So, the answer is yes, correct?</p> <p>4 MR. STEWART: Objection.</p> <p>5 THE WITNESS: We did use input from other</p> <p>6 people in doing our analysis.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. And you used input from people that have</p> <p>9 expertise that you lack in doing your analysis, correct?</p> <p>10 MR. STEWART: Objection.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. Such as people from the City, correct?</p> <p>13 A. For example, we talked to people at the City</p> <p>14 to find out what current revenue collections were, which</p> <p>15 we did not have direct access to.</p> <p>16 Q. Okay. So, you did rely on individuals who</p> <p>17 have expertise that you lack in performing your analysis,</p> <p>18 correct?</p> <p>19 A. We used other people as sources of information</p> <p>20 that we used in our revenue forecasts.</p> <p>21 Q. And that included people who have expertise</p> <p>22 that you lack.</p> <p>23 MR. STEWART: Objection.</p> <p>24 MR. SMITH: Correct?</p> <p>25 THE WITNESS: Again, I'm not sure what you</p>	<p style="text-align: right;">Page 39</p> <p>1 R. CLINE</p> <p>2 Mr. Malhotra is doing, that's an even more complex task</p> <p>3 with a lot of moving parts, correct?</p> <p>4 A. I'm not sure I have a judgment about the level</p> <p>5 of complexity of the expenditure side because we were not</p> <p>6 doing that analysis.</p> <p>7 Q. Okay. But your analysis gets plugged into</p> <p>8 Mr. Malhotra's analysis, correct?</p> <p>9 A. It's my understanding that that is how it</p> <p>10 was -- the product of our analysis was used.</p> <p>11 Q. Okay. And in order to perform the analysis,</p> <p>12 you needed to rely on numerous people other than</p> <p>13 yourself, correct?</p> <p>14 MR. STEWART: Objection.</p> <p>15 THE WITNESS: We relied upon information</p> <p>16 provided to us by other people.</p> <p>17 BY MR. SMITH:</p> <p>18 Q. And you relied on information provided to you</p> <p>19 by other people who have expertise that you lack,</p> <p>20 correct?</p> <p>21 MR. STEWART: Objection. Is this the sixth</p> <p>22 time, eighth time you've asked that question,</p> <p>23 Mr. Smith?</p> <p>24 THE WITNESS: And I'm still a little</p> <p>25 confused by what you mean by "expertise."</p>
<p style="text-align: right;">Page 38</p> <p>1 R. CLINE</p> <p>2 mean by "expertise."</p> <p>3 BY MR. SMITH:</p> <p>4 Q. Well, you're not an expert on the City of</p> <p>5 Detroit for example, right? We talked about that, right?</p> <p>6 Do you recall that? You can't answer whether you recall?</p> <p>7 MR. STEWART: Don't badger the witness.</p> <p>8 MR. SMITH: I'm not badgering.</p> <p>9 MR. STEWART: You are, too.</p> <p>10 MR. SMITH: I'm waiting for an answer.</p> <p>11 MR. STEWART: Well, no, you're badgering</p> <p>12 the witness. And that actually wasn't the question</p> <p>13 you asked before. He has every right to be</p> <p>14 confused when you said it had already been covered.</p> <p>15 That's a misstatement of the record.</p> <p>16 MR. SMITH: The record will speak for</p> <p>17 itself.</p> <p>18 BY MR. SMITH:</p> <p>19 Q. But it's fair to say that you had to rely</p> <p>20 on -- this is a massive -- you would agree with me that</p> <p>21 this is a massive undertaking, the forecasting of tax</p> <p>22 revenues for the City, correct?</p> <p>23 A. It is a complicated analysis that we did.</p> <p>24 Q. And forecasting in general, all of the</p> <p>25 revenues and costs for the City, the forecasts that</p>	<p style="text-align: right;">Page 40</p> <p>1 R. CLINE</p> <p>2 BY MR. SMITH:</p> <p>3 Q. Okay. Well, experts can have different kinds</p> <p>4 of expertise, correct?</p> <p>5 A. I don't understand the general concept of</p> <p>6 "expert" and "expertise."</p> <p>7 Q. Okay. So, even though you're holding yourself</p> <p>8 out as an expert in this case, you don't understand what</p> <p>9 an expert is, correct?</p> <p>10 A. I'm not holding myself out to be an expert. I</p> <p>11 am -- was responsible for the revenue forecasts that we</p> <p>12 prepared for the City of Detroit.</p> <p>13 Q. So, you're not holding yourself out as an</p> <p>14 expert on revenue forecasting, correct?</p> <p>15 A. I have extensive experience in revenue</p> <p>16 forecasting at the State level. We did the revenue</p> <p>17 forecasts for the City of Detroit.</p> <p>18 Q. You wouldn't call yourself an expert on</p> <p>19 revenue forecasting, correct?</p> <p>20 A. Again, I have trouble with the term "expert."</p> <p>21 Q. And so, the answer is you wouldn't use that</p> <p>22 term to describe yourself, correct?</p> <p>23 A. I don't know what you mean by the term</p> <p>24 "expert."</p> <p>25 Q. Okay. So, you wouldn't -- you wouldn't call</p>

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<p style="text-align: right;">Page 41</p> <p>1 R. CLINE</p> <p>2 anybody involved for the City an expert in this case;</p> <p>3 it's not a term you would use, correct?</p> <p>4 A. I don't understand what you mean by the term</p> <p>5 "expert."</p> <p>6 Q. Okay. Well, what do you -- have you ever used</p> <p>7 the term "expert" before?</p> <p>8 A. I can't relate that to the questions you've</p> <p>9 been asking me.</p> <p>10 Q. Can you define "expert" for me?</p> <p>11 A. No.</p> <p>12 Q. And so, because you can't define the term</p> <p>13 "expert," you certainly wouldn't hold yourself out as an</p> <p>14 expert in this case, correct?</p> <p>15 MR. STEWART: Objection.</p> <p>16 MR. SMITH: Correct? Are you going to</p> <p>17 answer the question?</p> <p>18 MR. STEWART: If you are going to gesture</p> <p>19 at the witness, I'd like the camera to start</p> <p>20 capturing Mr. Smith's arms' motions.</p> <p>21 MR. SMITH: I object. The camera should</p> <p>22 stay on the witness.</p> <p>23 MR. STEWART: Well, if are you going to</p> <p>24 gesture like that.</p> <p>25 MR. SMITH: I'm waiting for an answer.</p>	<p style="text-align: right;">Page 43</p> <p>1 R. CLINE</p> <p>2 question this time.</p> <p>3 Q. Have you had any interaction with Conway &</p> <p>4 MacKenzie?</p> <p>5 A. I have been at a presentation with people from</p> <p>6 those firms.</p> <p>7 Q. What presentation was that?</p> <p>8 A. I believe it was a presentation to bond</p> <p>9 holders and bond insurers in New York City.</p> <p>10 Q. Other than that, have you had any interaction</p> <p>11 with Conway & MacKenzie?</p> <p>12 A. I have not.</p> <p>13 Q. Have there been any formal studies that have</p> <p>14 been conducted to ascertain whether the City can increase</p> <p>15 revenues?</p> <p>16 A. I am not aware of those studies.</p> <p>17 Q. Okay. You're not aware of any study ever</p> <p>18 being conducted to ascertain whether the City can</p> <p>19 increase revenues, correct?</p> <p>20 A. I assume that you were asking about studies</p> <p>21 during the period of time when we were doing the analysis</p> <p>22 of the City of Detroit's revenue outlook.</p> <p>23 Q. Or any -- any -- I'm -- I didn't mean to</p> <p>24 constrain my question to a particular time frame. Are</p> <p>25 you aware -- you're not aware of any formal studies that</p>
<p style="text-align: right;">Page 42</p> <p>1 R. CLINE</p> <p>2 We're sitting here waiting for a long time.</p> <p>3 There's delaying tactics going on and he's not</p> <p>4 responding to the questions.</p> <p>5 MR. STEWART: The fact of the matter is</p> <p>6 you're asking very poor questions and it's your own</p> <p>7 fault. Let's repeat the question and the witness</p> <p>8 can answer -- or have the question.</p> <p>9 MR. SMITH: You wouldn't call yourself --</p> <p>10 MR. STEWART: Go ahead.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. You wouldn't call yourself an expert in this</p> <p>13 case, correct?</p> <p>14 A. I don't know what you mean by the term</p> <p>15 "expert."</p> <p>16 Q. And so, the answer is, no, you wouldn't call</p> <p>17 yourself one, correct?</p> <p>18 A. The answer is: I don't know what you mean by</p> <p>19 "expert."</p> <p>20 Q. Did you rely on reinvestment numbers from</p> <p>21 Conway & -- oh, wait. I think we covered that question.</p> <p>22 You have had no interaction with Conway & MacKenzie; is</p> <p>23 that correct?</p> <p>24 A. I don't know if the question -- that is a</p> <p>25 question, but it sounds like you posed a separate</p>	<p style="text-align: right;">Page 44</p> <p>1 R. CLINE</p> <p>2 have been conducted to ascertain whether the City can</p> <p>3 increase revenues, correct?</p> <p>4 A. I am aware of one study, which I actually did</p> <p>5 myself.</p> <p>6 Q. Okay. Other than your expert analysis, you're</p> <p>7 not aware of any formal studies conducted to ascertain --</p> <p>8 A. Not that I looked at.</p> <p>9 Q. I'll ask the question so I can finish it, and</p> <p>10 then you can answer.</p> <p>11 MR. STEWART: You do have to give him time</p> <p>12 to finish.</p> <p>13 BY MR. SMITH:</p> <p>14 Q. Other than your analysis, you're not aware of</p> <p>15 any formal studies conducted to ascertain whether the</p> <p>16 City can increase revenues, correct?</p> <p>17 A. I am not.</p> <p>18 Q. And you're not aware of any formal studies</p> <p>19 conducted to ascertain costs that the City conducted --</p> <p>20 cut, correct?</p> <p>21 A. Do you mean from the expenditure side of the</p> <p>22 budget?</p> <p>23 Q. Yes.</p> <p>24 A. I'm not aware of any.</p> <p>25 Q. You're not aware of any formal studies</p>

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<p style="text-align: right;">Page 45</p> <p>1 R. CLINE</p> <p>2 conducted on Detroit income tax, wagering tax, utility</p> <p>3 users' tax or corporate tax, correct?</p> <p>4 A. I am aware of the forecasts the City of</p> <p>5 Detroit did for those tax sources.</p> <p>6 Q. Is that the forecast that you have done, or is</p> <p>7 that a different forecast?</p> <p>8 A. That would be the forecast prepared as the</p> <p>9 normal budgetary cycle for the City of Detroit.</p> <p>10 Q. All right. Did you perform that, or did</p> <p>11 somebody else perform that?</p> <p>12 A. It was done -- my understanding is it was done</p> <p>13 by the City.</p> <p>14 Q. And the City -- what time period do they use</p> <p>15 as their standard period for forecasting?</p> <p>16 A. I believe they go out two years, might be</p> <p>17 three, but I believe it's a two-year forecast.</p> <p>18 Q. You're not aware of any forecast conducted for</p> <p>19 the City of Detroit that's longer than three years,</p> <p>20 correct?</p> <p>21 A. I'm not aware of any studies of forecasting</p> <p>22 tax revenues beyond that period of time.</p> <p>23 MR. STEWART: You mean by the City of</p> <p>24 Detroit not for the City of Detroit, right,</p> <p>25 Mr. Smith?</p>	<p style="text-align: right;">Page 47</p> <p>1 R. CLINE</p> <p>2 Q. -- correct, that's ever been done?</p> <p>3 A. I don't know if that's correct.</p> <p>4 Q. Okay. Sitting here --</p> <p>5 MR. STEWART: Do let him finish his</p> <p>6 question before you answer, because you're making</p> <p>7 his life harder, too.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Sitting here today, you can't identify any</p> <p>10 forecasts using the type of methodology that you used for</p> <p>11 the City of Detroit, correct?</p> <p>12 A. No, that's not correct.</p> <p>13 Q. What forecast has been done for the City</p> <p>14 that's used the methodology you used?</p> <p>15 A. The methodology that we have used is a fairly</p> <p>16 standard forecasting methodology that's been used</p> <p>17 extensively in the City of Detroit and for the State of</p> <p>18 Michigan and in other cities.</p> <p>19 Q. Have you reviewed any depositions in this</p> <p>20 case?</p> <p>21 A. I have not, other than my own.</p> <p>22 Q. The -- you say that the methodology used is a</p> <p>23 standard methodology that's been used before, correct?</p> <p>24 A. The methodology we used in constructing the</p> <p>25 forecasting model is based upon my experience as a</p>
<p style="text-align: right;">Page 46</p> <p>1 R. CLINE</p> <p>2 MR. SMITH: No, I mean for.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. You're not aware of any forecasts for the City</p> <p>5 of Detroit going out more than three years, whether</p> <p>6 conducted by the City or any other party, correct?</p> <p>7 A. I am not.</p> <p>8 MR. STEWART: Excluding his?</p> <p>9 MR. SMITH: Yes. We're excluding his.</p> <p>10 MR. STEWART: Yeah. That's what I figured.</p> <p>11 That's why I raised it.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. Your forecast is anomalous, correct, in terms</p> <p>14 of the length of time that it goes out, correct?</p> <p>15 MR. STEWART: Objection.</p> <p>16 THE WITNESS: I don't know what you mean by</p> <p>17 "anomalous."</p> <p>18 BY MR. SMITH:</p> <p>19 Q. It means there's no forecast like the one</p> <p>20 you've conducted here that's ever been conducted for the</p> <p>21 City of Detroit, correct?</p> <p>22 A. I did not say that.</p> <p>23 Q. Well, I'm asking you now. There's no forecast</p> <p>24 like the one you've conducted for the City of Detroit --</p> <p>25 A. I don't --</p>	<p style="text-align: right;">Page 48</p> <p>1 R. CLINE</p> <p>2 revenue forecaster, and I believe it is fairly standard</p> <p>3 in terms of how State revenue forecasting is done.</p> <p>4 Q. Can you point me to any treatise or other</p> <p>5 publication that lays out the methodology you've used for</p> <p>6 forecasting in this case?</p> <p>7 A. There are a number of publications, books, and</p> <p>8 articles that discuss revenue forecasting. I can't give</p> <p>9 you specific references today.</p> <p>10 Q. But is there any book or other written</p> <p>11 publication that specifically lays out the specific</p> <p>12 methodology that you've used in this case?</p> <p>13 A. The methodology that we used in this case is</p> <p>14 the methodology that I thought followed as a tax revenue</p> <p>15 estimator in both the State of Minnesota and the State of</p> <p>16 Michigan.</p> <p>17 Q. Okay. And you were doing forecasting for the</p> <p>18 State, not cities, correct?</p> <p>19 A. Correct.</p> <p>20 Q. And you never used -- while you were at the</p> <p>21 State of Minnesota or the State of Michigan, you never</p> <p>22 forecast tax revenue out to 10 years, correct?</p> <p>23 A. I don't know if that's a correct statement.</p> <p>24 Q. Sitting here today, you can't identify any</p> <p>25 instance when you were at either the State of Minnesota</p>

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<p style="text-align: right;">Page 49</p> <p>1 R. CLINE</p> <p>2 or the State of Michigan where you constructed a tax</p> <p>3 forecast that looked at a period of time as long as 10</p> <p>4 years, correct?</p> <p>5 A. The tax forecasts that we -- that I have done</p> <p>6 at the State level, that have been published, have been</p> <p>7 the forecasts related to the budget cycle, which is</p> <p>8 determined by the legislature.</p> <p>9 Q. And that length of time would be much less</p> <p>10 than 10 years, correct?</p> <p>11 A. It would be.</p> <p>12 Q. And there's a model that you used that you</p> <p>13 plug the numbers into. Where did that actual model come</p> <p>14 from; is that something you constructed for purposes of</p> <p>15 this case?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: We prepared our revenue</p> <p>18 estimates using a model of the specific taxes that</p> <p>19 we looked at that we constructed.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. For purposes of this litigation, correct?</p> <p>22 A. For purposes of making a 10-year forecast for</p> <p>23 the City of Detroit.</p> <p>24 Q. Okay. So, the model that you use in your --</p> <p>25 to generate the numbers in your expert report is</p>	<p style="text-align: right;">Page 51</p> <p>1 R. CLINE</p> <p>2 A. An Excel spreadsheet had been put together</p> <p>3 that identified the major revenue sources, and that had</p> <p>4 done some initial estimates for a 10-year period of time.</p> <p>5 Q. And do you know who specifically put that</p> <p>6 together?</p> <p>7 A. I do not.</p> <p>8 Q. But you used that spreadsheet, the</p> <p>9 pre-existing spreadsheet as the basis or at least as a</p> <p>10 source for your work on the case?</p> <p>11 A. It was a starting point for our modeling.</p> <p>12 Q. Did you look at the experience in any other</p> <p>13 cities in developing your forecast?</p> <p>14 A. We did at one point.</p> <p>15 Q. What other cities did you look at?</p> <p>16 A. We looked at the economic recovery in various</p> <p>17 cities that had suffered population decline over a period</p> <p>18 of time. I could get you a list of those cities. I</p> <p>19 believe it was about a dozen separate cities.</p> <p>20 Q. In any of the cities that you looked at that</p> <p>21 had suffered population decline, did anybody file for</p> <p>22 Chapter 9?</p> <p>23 A. I don't know the answer to that.</p> <p>24 Q. Sitting here today, though, you can't identify</p> <p>25 any cities suffering population decline that filed for a</p>
<p style="text-align: right;">Page 50</p> <p>1 R. CLINE</p> <p>2 something that you constructed for purposes of your work</p> <p>3 on -- for the City of Detroit, correct?</p> <p>4 A. That is correct.</p> <p>5 Q. Did you personally construct that model, or</p> <p>6 was that somebody on your staff?</p> <p>7 A. As I believe I've answered, I was the director</p> <p>8 of the construction of the model. The calculations, the</p> <p>9 creation of the revenue estimating formulas was done by</p> <p>10 my staff.</p> <p>11 Q. And so, before you started your work in the</p> <p>12 spring of 2013, the model that you're using did not</p> <p>13 exist, correct?</p> <p>14 A. Prior to our joining the project, I believe</p> <p>15 the team in Detroit had created the framework of a</p> <p>16 10-year revenue forecasting model.</p> <p>17 Q. Okay. Who did that?</p> <p>18 A. We got that information from the EY team in</p> <p>19 Detroit. I'm not sure who put that model together</p> <p>20 initially.</p> <p>21 Q. Okay. So, the model was put together by the</p> <p>22 time you started your work on the case; is that correct?</p> <p>23 A. I don't think that's accurate.</p> <p>24 Q. Well, what was put together by the time you</p> <p>25 started your work on the case?</p>	<p style="text-align: right;">Page 52</p> <p>1 R. CLINE</p> <p>2 Chapter 9 as a result, correct?</p> <p>3 A. Not to my knowledge.</p> <p>4 Q. Have you had any interaction with Mr. Hill?</p> <p>5 A. I have not personally.</p> <p>6 Q. Have you had any interaction with Gary Evanko?</p> <p>7 A. Not personally, I have not.</p> <p>8 Q. To your knowledge, has anybody on your team?</p> <p>9 A. Don't know the answer to that. I'd have to</p> <p>10 check. I'm just not aware of any interactions they may</p> <p>11 have had.</p> <p>12 Q. Have you worked with Eric Scorsone at Michigan</p> <p>13 State?</p> <p>14 A. I have not personally worked with him.</p> <p>15 Q. And do you view him as an expert?</p> <p>16 A. Again, I'm not sure what you mean by "expert."</p> <p>17 Q. Okay. Do you know who he is?</p> <p>18 A. I do know who he is.</p> <p>19 Q. Okay. What do you know about him?</p> <p>20 A. I know that he has been providing the City of</p> <p>21 Detroit with revenue estimates at various points in time.</p> <p>22 Q. Okay. And have you reviewed revenue estimates</p> <p>23 that have been provided by Mr. Scorsone to the City of</p> <p>24 Detroit?</p> <p>25 A. I have.</p>

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1 **R. CLINE**

2 Q. And are there ways in which your revenue

3 forecasts differ from Mr. Scorsone's?

4 **A. They differ in terms of the results.**

5 Q. And could you explain how -- in what ways they

6 differ in terms of the results?

7 **A. When we looked at his revenue estimates that**

8 **were made available to us about late spring, perhaps June**

9 **of 2013, we noticed that his current forecast, or the**

10 **most recent that we saw, had revenue estimates that were**

11 **higher than the actuals that were coming in at that point**

12 **in time.**

13 Q. And so, Mr. Scorsone's revenue estimates are

14 generally higher than the ones that you've provided in

15 this case, correct?

16 MR. STEWART: Objection.

17 THE WITNESS: I don't -- I don't know.

18 BY MR. SMITH:

19 Q. Mr. Scorsone, is he a Professor at Michigan

20 State University?

21 **A. I believe he is.**

22 Q. Does he have any -- he works with the State in

23 some capacity; is that correct?

24 **A. I don't know the answer to that question.**

25 Q. I'll probably mispronounce this name, but

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1 **R. CLINE**

2 Shavi Sarna, do you know who that is?

3 **A. I do.**

4 Q. Do you work with that person?

5 **A. He was one of the members -- he is one of the**

6 **members of the EY team in Detroit.**

7 Q. And what has been his role?

8 **A. He has provided us with a lot of the**

9 **information that had been prepared by the EY team in**

10 **Detroit.**

11 Q. Okay. So, you have been working with Shavi

12 Sarna, and Mr. Malhotra has been working with Shavi

13 Sarna; is that fair?

14 **A. I believe that's correct.**

15 Q. Ernst & Young hasn't prepared a balance sheet

16 for the City of Detroit as far as you're aware, correct?

17 **A. I -- not that I'm aware of.**

18 Q. Why aren't you doing the property tax

19 forecasting or the revenue sharing forecasting?

20 **A. I supervised the property tax forecasting, the**

21 **revenue forecasting, and Caroline Sallee did the heavy**

22 **lifting for the modeling.**

23 Q. Okay. And why aren't you testifying as the

24 expert instead of Miss Sallee with respect to those

25 matters?

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1 **R. CLINE**

2 **A. I don't know the answer to that question.**

3 Q. Okay. Do you know why you -- why aren't you

4 forecasting fees and other revenues from the City?

5 **A. We were not asked to do that.**

6 Q. Do you have any idea why you're not -- you

7 weren't asked to do forecasting for fees or other

8 revenues from the City?

9 **A. I do not.**

10 Q. Other than the income tax, corporate tax,

11 utility users tax, wagering tax and property tax, are

12 there any other taxes collected by the City?

13 **A. There is another revenue source that we were**

14 **responsible for.**

15 Q. What's that?

16 **A. That was State revenue sharing payments, the**

17 **forecast of State revenue sharing payments to the City of**

18 **Detroit.**

19 **(Off the record.)**

20 BY MR. SMITH:

21 Q. Do you have any idea about what fees the City

22 collects?

23 **A. I do not.**

24 Q. In your view, what are the biggest sources of

25 untapped revenue for the City?

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1 **R. CLINE**

2 MR. STEWART: Objection.

3 THE WITNESS: I don't have an opinion on

4 that.

5 BY MR. SMITH:

6 Q. You weren't asked to identify potentially

7 untapped sources of revenue for the City, correct?

8 **A. Correct.**

9 Q. You weren't asked to identify ways in which

10 the City could increase its revenues through taxes,

11 correct?

12 **A. We were not asked to do that.**

13 Q. Do you have any idea why you weren't asked to

14 do that?

15 **A. I do not.**

16 Q. Don't you think it's something the City would

17 want to do to increase revenues through the tax

18 mechanism?

19 MR. STEWART: Objection.

20 THE WITNESS: I have no comment on that.

21 BY MR. SMITH:

22 Q. Well, I mean, just as a matter of common

23 sense, Detroit wants to increase its revenues, correct?

24 **A. I don't know the answer to that question.**

25 Q. Okay. So, nobody from the City or the

Pages 53 to 56

<p style="text-align: right;">Page 57</p> <p>1 R. CLINE</p> <p>2 emergency manager's office has communicated any desire to</p> <p>3 increase revenues to you, correct?</p> <p>4 A. No one has communicated that to me personally,</p> <p>5 no.</p> <p>6 Q. No one from the City or the emergency manager</p> <p>7 has ever sought out your expertise to try to help the</p> <p>8 City increase its revenues so it can pay more to the</p> <p>9 creditors, correct?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: No one has asked us to do tax</p> <p>12 policy analysis of alternatives for the City.</p> <p>13 BY MR. SMITH:</p> <p>14 Q. So that's correct? I mean, I'm just trying to</p> <p>15 get a yes or no that -- nobody from the City has reached</p> <p>16 out to you to try to get your expertise to increase</p> <p>17 revenues for the City so it can pay more to its</p> <p>18 creditors, correct?</p> <p>19 MR. STEWART: Objection.</p> <p>20 THE WITNESS: The analysis that we did for</p> <p>21 the City, and summarized in the expert report, is</p> <p>22 what we were asked to do for the City.</p> <p>23 BY MR. SMITH:</p> <p>24 Q. Okay. So, nobody from the City or the</p> <p>25 emergency manager's office has reached out to you to get</p>	<p style="text-align: right;">Page 59</p> <p>1 R. CLINE</p> <p>2 THE WITNESS: As I believe I've said, we</p> <p>3 relied upon a number of other people for</p> <p>4 information that we used in our modeling exercise.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. But you're not in a position to comment on the</p> <p>7 expertise of the people you relied on for information for</p> <p>8 your model, correct?</p> <p>9 A. No, I'm not.</p> <p>10 Q. Do you agree that some of the assumptions that</p> <p>11 you used for your model are based on expert judgments</p> <p>12 made by other third parties?</p> <p>13 A. Outside of the area of the population</p> <p>14 forecast, I believe we are responsible for the major</p> <p>15 assumptions in the model.</p> <p>16 Q. As far as the population forecast, though, you</p> <p>17 had to rely on expert judgments by individuals outside of</p> <p>18 Ernst & Young, correct?</p> <p>19 A. We relied upon the forecasts that were</p> <p>20 prepared by SEMCOG for the City of Detroit.</p> <p>21 Q. So the answer is correct, you did do that,</p> <p>22 relied on the expert judgment of a third party for the</p> <p>23 population forecast, correct?</p> <p>24 A. We relied upon the forecast that SEMCOG had</p> <p>25 prepared.</p>
<p style="text-align: right;">Page 58</p> <p>1 R. CLINE</p> <p>2 your expertise to try to help increase revenues for the</p> <p>3 City to pay the creditors more, correct?</p> <p>4 MR. STEWART: Objection.</p> <p>5 MR. SMITH: That's not something you were</p> <p>6 asked to do, correct?</p> <p>7 MR. STEWART: Objection.</p> <p>8 THE WITNESS: No one has contacted me to</p> <p>9 ask to do that type of analysis.</p> <p>10 BY MR. SMITH:</p> <p>11 Q. And as far as you're aware, nobody has</p> <p>12 contacted anybody at Ernst & Young to do that type of</p> <p>13 analysis, correct?</p> <p>14 A. I don't know the answer to that.</p> <p>15 Q. You can't identify anybody that's been asked</p> <p>16 to do that type of analysis to increase revenues for the</p> <p>17 City through tax policy or otherwise, correct?</p> <p>18 A. I just don't know if EY was asked to do that.</p> <p>19 Q. Sitting here today, you're not aware of any</p> <p>20 such request, correct?</p> <p>21 A. I don't know of any such requests.</p> <p>22 Q. Okay. Do you agree that the forecasts that</p> <p>23 Ernst & Young has performed rely on people with diverse</p> <p>24 expertise?</p> <p>25 MR. STEWART: Objection.</p>	<p style="text-align: right;">Page 60</p> <p>1 R. CLINE</p> <p>2 Q. And just so the record is clear, could you</p> <p>3 tell me what SEMCOG stands for?</p> <p>4 A. I believe it's the Southeast Michigan</p> <p>5 Organization of Governments? I'll have to check that to</p> <p>6 verify that.</p> <p>7 Q. Do you know whether that's a State entity or</p> <p>8 what kind of entity that is?</p> <p>9 A. I believe it's a regional entity that</p> <p>10 represents governments in that region of the state.</p> <p>11 Q. Have you updated your forecasts over time?</p> <p>12 A. We have.</p> <p>13 Q. Have you changed assumptions in your forecast</p> <p>14 over time?</p> <p>15 A. We have.</p> <p>16 Q. What assumptions in your forecast have changed</p> <p>17 over time?</p> <p>18 A. There are two areas. One, the starting points</p> <p>19 for actual revenue collections were updated continually</p> <p>20 as new information became available. So, in a sense, the</p> <p>21 starting point changed over time. Secondly, based upon</p> <p>22 actual revenue collection experience and changes in the</p> <p>23 state economic forecast, we altered some of the growth</p> <p>24 rate assumptions over time.</p> <p>25 Q. And when you say the starting point changed</p>

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<p style="text-align: right;">Page 61</p> <p>1 R. CLINE</p> <p>2 over -- in the various iterations of your forecast, what</p> <p>3 specifically are you referring to?</p> <p>4 A. The estimate, for example, of actual property</p> <p>5 tax collections in the city changed over time. One</p> <p>6 example was the composition of enterprise zone property.</p> <p>7 As the City updated its estimates of the dollar amounts</p> <p>8 in those buckets of property -- assessed property, we</p> <p>9 updated the model.</p> <p>10 Q. And did that result in your model showing less</p> <p>11 revenue than it previously had?</p> <p>12 A. There were a number of changes. Some may have</p> <p>13 increased revenue, some may have decreased revenues. I</p> <p>14 don't have a score sheet to show the change --</p> <p>15 Q. Okay.</p> <p>16 A. -- at each step of the way.</p> <p>17 Q. So, since you began your work, the model has</p> <p>18 been changed multiple times, correct?</p> <p>19 A. The model structure hasn't changed.</p> <p>20 Q. But the inputs and assumptions to your model</p> <p>21 have changed multiple times since you started your work,</p> <p>22 correct?</p> <p>23 A. That is correct.</p> <p>24 Q. And multiple different inputs have been</p> <p>25 changed in your model since you began your work, correct?</p>	<p style="text-align: right;">Page 63</p> <p>1 R. CLINE</p> <p>2 A. I believe in this case, that is correct.</p> <p>3 Q. Were there any other changes that we haven't</p> <p>4 discussed, any changes to the inputs or assumptions that</p> <p>5 we haven't discussed?</p> <p>6 A. There may be a number of other changes.</p> <p>7 Q. Okay. Do you agree with me that forecasting</p> <p>8 models such as you've developed in this case has to be</p> <p>9 constantly updated because, you know, numbers are</p> <p>10 changing and assumptions and inputs change?</p> <p>11 A. I would agree that to get the most accurate</p> <p>12 estimate or forecast, you should start with the most</p> <p>13 recent, actual information in the model.</p> <p>14 Q. And that requires updating the model over</p> <p>15 time, correct?</p> <p>16 A. That is correct.</p> <p>17 Q. And in order to ensure the reliability of a</p> <p>18 forecasting model, you need to continuously update it as</p> <p>19 information becomes available, correct?</p> <p>20 A. I'm not sure I would use the word</p> <p>21 "reliability." You certainly want to get the most</p> <p>22 accurate starting point for the forecast.</p> <p>23 Q. In order to ensure that a model is not</p> <p>24 materially wrong, you need to continuously update the</p> <p>25 model for forecasting, correct?</p>
<p style="text-align: right;">Page 62</p> <p>1 R. CLINE</p> <p>2 A. That is correct.</p> <p>3 Q. And those inputs and assumptions have changed</p> <p>4 based on information from third parties such as the City,</p> <p>5 correct?</p> <p>6 A. Yes, and the State would be another example.</p> <p>7 Q. Okay. And overall, though, the changes to the</p> <p>8 property tax modeling, did that increase overall or</p> <p>9 decrease overall revenue projected to be available to the</p> <p>10 City?</p> <p>11 A. I can't recall the answer to that. Caroline</p> <p>12 Sallee, I believe, would have those details.</p> <p>13 Q. The starting point, could you elaborate on</p> <p>14 what you are talking about when you say the starting</p> <p>15 point for the projections changed?</p> <p>16 A. One example would be user -- utility user tax</p> <p>17 collections. They have been trending downward over the</p> <p>18 last two to three years, and the latest figures show that</p> <p>19 they had decreased faster than we had initially</p> <p>20 forecasted in the short run. So, we updated the starting</p> <p>21 point for utility user taxes to reflect the lower current</p> <p>22 collection levels.</p> <p>23 Q. Okay. So your changes to the utility tax</p> <p>24 modeling resulted in less revenue projected to be</p> <p>25 available to the City, correct?</p>	<p style="text-align: right;">Page 64</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: I don't know what you mean by</p> <p>4 "materially," right or wrong.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. Okay. Why did you update the model, the</p> <p>7 forecasting that you had performed in this case?</p> <p>8 A. Because it's very important, if we were going</p> <p>9 out to a 10-year forecast, to start from the most</p> <p>10 accurate starting point, which was the most recent actual</p> <p>11 collection data.</p> <p>12 Q. Has Ernst & Young been engaged to continue any</p> <p>13 work on the forecasting beyond the confirmation of the</p> <p>14 plan?</p> <p>15 A. I believe my practice is still involved in the</p> <p>16 project. The latest work we have done is summarized in</p> <p>17 my expert report.</p> <p>18 Q. Yeah. But my question is, there's going to be</p> <p>19 a confirmation hearing that you're going to testify at;</p> <p>20 you know that, right?</p> <p>21 A. The trial?</p> <p>22 Q. Yeah.</p> <p>23 A. Yes.</p> <p>24 Q. And the City wants the Court to confirm the</p> <p>25 Plan of Adjustment; you understand that, correct? So it</p>

<p style="text-align: right;">Page 65</p> <p>1 R. CLINE</p> <p>2 can exit bankruptcy?</p> <p>3 A. I'm not familiar with the details.</p> <p>4 Q. Well, after the bankruptcy, is there any plans</p> <p>5 as far as you're aware, for Ernst & Young to continue</p> <p>6 doing forecasting work for the City after the plan is</p> <p>7 confirmed and the City gets out of bankruptcy?</p> <p>8 A. No one has discussed with me providing that</p> <p>9 type of additional service.</p> <p>10 Q. Okay. But if you were asked to perform</p> <p>11 forecasting work beyond the City's exit from bankruptcy,</p> <p>12 you would want to continuously update the model in order</p> <p>13 to ensure that it's accurate and scientifically reliable,</p> <p>14 correct?</p> <p>15 MR. STEWART: Objection.</p> <p>16 THE WITNESS: I don't know what you mean by</p> <p>17 the term "scientifically reliable." It is best</p> <p>18 forecasting practice to always determine the latest</p> <p>19 actual tax collection figures before you forecast</p> <p>20 into the future, whether it's ten or two years,</p> <p>21 four years or ten years.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. So, you wouldn't hold out the analysis you've</p> <p>24 done in this case as being scientifically reliable,</p> <p>25 correct?</p>	<p style="text-align: right;">Page 67</p> <p>1 R. CLINE</p> <p>2 correct?</p> <p>3 A. To my knowledge, there is no measure of</p> <p>4 reliability before the fact of a tax revenue forecast.</p> <p>5 Q. And inherent in doing forecasting work,</p> <p>6 there's a certain amount of guesswork or speculation,</p> <p>7 correct?</p> <p>8 MR. STEWART: Objection.</p> <p>9 THE WITNESS: I wouldn't characterize it as</p> <p>10 guesswork.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. Would you -- would it be fair to say that in</p> <p>13 order to do forecasting work, you need to make some</p> <p>14 educated guesses?</p> <p>15 A. You need to make a number of assumptions in</p> <p>16 any forecasting model or exercise based upon your best</p> <p>17 judgment and professional knowledge of what you're</p> <p>18 forecasting.</p> <p>19 Q. And the assumptions you make dictate what</p> <p>20 results you achieve in forecasting, correct?</p> <p>21 A. I would not describe it that way.</p> <p>22 Q. How do the assumptions you make impact the</p> <p>23 results of the forecast?</p> <p>24 A. If you change the assumptions of some of the</p> <p>25 key drivers, the results would change.</p>
<p style="text-align: right;">Page 66</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: I don't know what that means,</p> <p>4 that term.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. And so, you wouldn't represent to the Court</p> <p>7 that your analysis is scientifically reliable, correct?</p> <p>8 MR. STEWART: Same objection.</p> <p>9 THE WITNESS: I don't know what that phrase</p> <p>10 means.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. So, would you represent to the Court that your</p> <p>13 analysis is scientifically reliable? That's not</p> <p>14 something that you would say, correct?</p> <p>15 MR. STEWART: You're arguing with the</p> <p>16 witness, Mr. Smith. He has answered the question</p> <p>17 now three times. Maybe if you could define it for</p> <p>18 him, he could answer your question.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. Can you, as an expert in this case, tell me</p> <p>21 what something -- what scientifically reliable means?</p> <p>22 A. Not in the realm of tax revenue forecasting.</p> <p>23 Q. There's no set of standard sources or</p> <p>24 authorities that would tell you whether an analysis in</p> <p>25 the area of tax forecasting is scientifically reliable,</p>	<p style="text-align: right;">Page 68</p> <p>1 R. CLINE</p> <p>2 Q. Okay. And with your forecasting, if you</p> <p>3 changed the assumptions, your results could change,</p> <p>4 correct?</p> <p>5 A. If you changed the assumptions, the results of</p> <p>6 the forecasting model exercise would change.</p> <p>7 Q. And in your forecasting, there are numerous</p> <p>8 assumptions involved, correct?</p> <p>9 A. As we discussed earlier, that is correct.</p> <p>10 Q. In order to ensure accurate results, though,</p> <p>11 if you were retained after the bankruptcy was over to do</p> <p>12 forecasting for the City, in order to ensure that your</p> <p>13 forecasting was accurate, it would have to be</p> <p>14 continuously updated, correct?</p> <p>15 A. The starting point, which is actual revenue</p> <p>16 collections, would be continuously updated. Any new</p> <p>17 economic forecasts, for example, from the City or from</p> <p>18 the State, would be fair -- new information to consider,</p> <p>19 and you could also consider whether or not the forecast</p> <p>20 growth rates were still reasonable in making a new</p> <p>21 forecast.</p> <p>22 Q. And if tax rates changed or other assumptions</p> <p>23 became inaccurate after the bankruptcy was over, you</p> <p>24 would have to update your forecasting in order to ensure</p> <p>25 that it's accurate, correct?</p>

<p style="text-align: right;">Page 69</p> <p>1 R. CLINE</p> <p>2 A. As I mentioned earlier, the tax rates</p> <p>3 themselves are all current law. So, they are either</p> <p>4 right or wrong. They don't change unless current law</p> <p>5 changes.</p> <p>6 Q. Well, yeah, but now we're -- assuming that you</p> <p>7 were working for the City, say, two years after the</p> <p>8 bankruptcy was over, and the tax rate changed, you would</p> <p>9 need to revise your model to make it accurate, right;</p> <p>10 otherwise it wouldn't be accurate, correct?</p> <p>11 A. We would revise the model to pick up any</p> <p>12 changes in tax law, whether it was tax rate or tax-based</p> <p>13 changes.</p> <p>14 Q. And in order to ensure your model was</p> <p>15 accurate, you would have to revise the model after the</p> <p>16 bankruptcy was over, if any of the assumptions changed,</p> <p>17 correct?</p> <p>18 A. I would not say we make those -- we make those</p> <p>19 changes in order to do the best forecast of the expected</p> <p>20 revenue streams. Whether it's accurate or not depends</p> <p>21 upon what actually happens in the future compared to the</p> <p>22 forecast.</p> <p>23 Q. So, as a forecaster, you can't represent to</p> <p>24 the Court that your forecast is actually going to be</p> <p>25 accurate, correct?</p>	<p style="text-align: right;">Page 71</p> <p>1 R. CLINE</p> <p>2 collections under current law and estimated economic</p> <p>3 conditions.</p> <p>4 Q. Okay. So, you're not providing the Court with</p> <p>5 any forecast that tells us what will happen if there are</p> <p>6 legal changes, correct?</p> <p>7 A. That is correct.</p> <p>8 Q. And you're not providing the Court with any</p> <p>9 forecasts that will tell it what will happen if there are</p> <p>10 changes in the economy, correct?</p> <p>11 MR. STEWART: Objection.</p> <p>12 THE WITNESS: Our forecast is based upon</p> <p>13 changes in the economy.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. Your forecast, though -- you're not providing</p> <p>16 the Court with any forecast that tells us what revenues</p> <p>17 will be based on actual economic conditions because</p> <p>18 nobody can predict what those will be, correct?</p> <p>19 A. It wouldn't be a forecast.</p> <p>20 Q. But certainly, you've made forecasts in the</p> <p>21 past that have been wrong, correct?</p> <p>22 A. I imagine so.</p> <p>23 Q. And in fact, would it be fair to say that all</p> <p>24 of the forecasts that you've made in the past have been</p> <p>25 wrong to some extent, correct?</p>
<p style="text-align: right;">Page 70</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: That's not a term we use, to</p> <p>4 my knowledge, in evaluating forecasts.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. And that's because events can change in the</p> <p>7 future and nobody knows what they'll be, correct?</p> <p>8 A. It is correct that the forecast is based on</p> <p>9 assumed economics, current tax law, and the key</p> <p>10 assumptions in the forecast. If any of those change, the</p> <p>11 forecast will change.</p> <p>12 Q. And so, your forecast doesn't tell us anything</p> <p>13 about what the actual revenues of the City will be a year</p> <p>14 or two years or three years or 10 years from now,</p> <p>15 correct?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: If we knew the actuals, it</p> <p>18 wouldn't be a forecast.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. Okay. And so, your forecast doesn't tell us</p> <p>21 what the actual revenues of the City are going to be in</p> <p>22 the 10-year period or 40-year period that you look at,</p> <p>23 correct?</p> <p>24 A. The forecast is an attempt to find the best</p> <p>25 point estimate of what can be expected from the revenue</p>	<p style="text-align: right;">Page 72</p> <p>1 R. CLINE</p> <p>2 A. I would be more generous and say it's true</p> <p>3 that anyone who made a forecast would find that it's not</p> <p>4 always the final result.</p> <p>5 Q. Yeah. And in general, forecasts are off</p> <p>6 because there's no perfect methodology for forecasting</p> <p>7 into the future, correct?</p> <p>8 A. You use the best tool available to make your</p> <p>9 forecast using the best available information as a</p> <p>10 starting point, and your understanding of the economics</p> <p>11 that you're dealing with.</p> <p>12 Q. And even using the best available methodology</p> <p>13 and information, forecasts are frequently wrong, correct?</p> <p>14 A. I believe that would be an accurate statement.</p> <p>15 Q. And that was your experience when you were</p> <p>16 working for the State of Michigan and the State of</p> <p>17 Minnesota, correct?</p> <p>18 A. Correct.</p> <p>19 Q. The -- would you agree with me that the longer</p> <p>20 the period of time you're attempting to forecast, the</p> <p>21 more likely your forecast will turn out to be inaccurate.</p> <p>22 A. I believe it would be correct to say the</p> <p>23 longer the forecast, the more events you have to consider</p> <p>24 in your forecast. Each year adds additional economics</p> <p>25 that have to be considered in the forecast.</p>

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<p style="text-align: right;">Page 73</p> <p>1 R. CLINE</p> <p>2 Q. And each additional year added to the length</p> <p>3 of a forecast adds increased -- an increased chance that</p> <p>4 your forecast will be wrong, correct?</p> <p>5 A. I'm not sure I understand what you mean by</p> <p>6 "increased chance." Those are statistical terms that are</p> <p>7 difficult to apply to the forecasting arena.</p> <p>8 Q. Okay. Well, how would you describe the</p> <p>9 difference between doing a 10-year forecast versus a</p> <p>10 one-year forecast in terms of the chances that your</p> <p>11 predictions will accurately reflect what ultimately</p> <p>12 occurs?</p> <p>13 A. I wouldn't make it a statement to try to</p> <p>14 describe that.</p> <p>15 Q. Okay. So, you can't offer me any expert</p> <p>16 opinion that tells me whether a 10-year forecast is more</p> <p>17 or less reliable than a one-year forecast.</p> <p>18 A. In the case of our forecasts for the City of</p> <p>19 Detroit, we were asked to do a 10-year forecast. I have</p> <p>20 no results to compare our forecast to, so I can't make</p> <p>21 comments about reliability over a two-year, a five-year</p> <p>22 or a 10-year period in the City of Detroit.</p> <p>23 Q. Okay. So you're offering no opinion on the</p> <p>24 reliability of your forecast over the next 10 years,</p> <p>25 correct?</p>	<p style="text-align: right;">Page 75</p> <p>1 R. CLINE</p> <p>2 tested the results of your forecast against actual</p> <p>3 results, correct?</p> <p>4 MR. STEWART: Objection.</p> <p>5 THE WITNESS: We did not backcast.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Okay. So, it would have been possible to test</p> <p>8 your model by using this procedure of backcasting to see</p> <p>9 how accurately it predicted prior events; is that fair?</p> <p>10 A. Not in this case.</p> <p>11 Q. Why is that?</p> <p>12 A. Because of the unique situation at the City of</p> <p>13 Detroit.</p> <p>14 Q. And what is that unique situation that</p> <p>15 prevented you from testing your model?</p> <p>16 A. Basically, the challenge is that those models</p> <p>17 fit over earlier periods of time were not able to pick up</p> <p>18 the structural break between Detroit and the rest of the</p> <p>19 state, and the cumulative impact of the financial crisis</p> <p>20 in Detroit.</p> <p>21 Q. What do you mean by that?</p> <p>22 A. I -- was there a -- part of the explanation</p> <p>23 you would like for me to --</p> <p>24 Q. Well, maybe you could elaborate, just further</p> <p>25 explain what you are talking about.</p>
<p style="text-align: right;">Page 74</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: I have no statistical</p> <p>4 statement to describe accuracy in that setting.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. Okay. The -- when you were doing the</p> <p>7 forecast, I mean, did you develop forecast results that</p> <p>8 you could test against actual results during the last</p> <p>9 year? Were there any results that you generated that you</p> <p>10 could even test within the last year's?</p> <p>11 MR. STEWART: Can you just reread the</p> <p>12 question?</p> <p>13 (The record was read back by the reporter.)</p> <p>14 MR. STEWART: Objection.</p> <p>15 THE WITNESS: As I explained, we started</p> <p>16 our forecast with the most recent actuals, so in</p> <p>17 the year we started, they were the actual</p> <p>18 collections. All of our forecasts move forward in</p> <p>19 time from the starting point.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. Okay. So, you never tested your forecast</p> <p>22 results against actual results, correct?</p> <p>23 A. We started with the most recent, actual</p> <p>24 results and forecasted the unknown future.</p> <p>25 Q. Okay. So, the answer is correct, you've never</p>	<p style="text-align: right;">Page 76</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection. You have to ask a</p> <p>3 question. You just can't say please tell me more.</p> <p>4 MR. SMITH: I did, and then he asked me a</p> <p>5 question and I'm trying to clarify.</p> <p>6 THE WITNESS: Could you rephrase your</p> <p>7 question?</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Well, let me ask you this: Is there any</p> <p>10 standard rule of thumb for how frequently a forecast such</p> <p>11 as you have developed here needs to be updated?</p> <p>12 A. As revenue forecaster for the State of</p> <p>13 Michigan, we used to do monthly forecasts.</p> <p>14 Q. So, the standard practice in Michigan was to</p> <p>15 revise forecasts each month based on new data and inputs</p> <p>16 into the model?</p> <p>17 A. But it depended upon the purpose. That was</p> <p>18 for tracking actual tax collections against forecasts.</p> <p>19 For forecast purposes related to the budgetary cycle, we</p> <p>20 would do two-year or four-year forecasts.</p> <p>21 Q. So, depending on the purpose, forecasts should</p> <p>22 be updated either monthly or every couple of years. Is</p> <p>23 that fair?</p> <p>24 A. Depending upon the purpose, forecasts should</p> <p>25 be updated as often as I -- I would say, as new</p>

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<p style="text-align: right;">Page 77</p> <p>1 R. CLINE</p> <p>2 information becomes available that's relevant to the</p> <p>3 forecast.</p> <p>4 Q. So, a forecast should be updated as frequently</p> <p>5 as new information becomes available that's relevant for</p> <p>6 the forecast, correct?</p> <p>7 A. I think that's a reasonable statement.</p> <p>8 Q. And in -- with respect to your forecasts</p> <p>9 you've developed in this case, how frequently have you</p> <p>10 updated those?</p> <p>11 A. I would say there have been points in time</p> <p>12 when we looked at all of the estimates together. That</p> <p>13 might have been in the fall of 2013 and spring of 2014,</p> <p>14 and then more recently in June of 2014.</p> <p>15 Q. So, how many times have you updated your</p> <p>16 forecast?</p> <p>17 A. I believe that's three comprehensive updates</p> <p>18 where we have generated additional -- new spreadsheet</p> <p>19 results for each of the major tax types.</p> <p>20 Q. And over what period of time did those three</p> <p>21 updates occur?</p> <p>22 A. As I believe I stated, I -- the original that</p> <p>23 we did was probably June 2013, fall of 2013 another,</p> <p>24 spring of 2014 is another, and then probably June,</p> <p>25 perhaps -- I think it was June 2014.</p>	<p style="text-align: right;">Page 79</p> <p>1 R. CLINE</p> <p>2 A. The legislature or the city council could</p> <p>3 change the law.</p> <p>4 Q. And so the legislature or the city council</p> <p>5 would increase tax rates over the 10-year period,</p> <p>6 correct?</p> <p>7 A. Yes, that's possible.</p> <p>8 Q. And if current law is changed over the 10-year</p> <p>9 period, that could significantly increase the amount of</p> <p>10 revenue available to the City, correct?</p> <p>11 MR. STEWART: Objection.</p> <p>12 THE WITNESS: I believe the changes could</p> <p>13 go in either direction.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. So, changes in law could significantly</p> <p>16 increase revenue to the City, correct?</p> <p>17 A. Or they could restrict the revenue available</p> <p>18 to the City. The example would be the election that is</p> <p>19 coming up to deal with the tangible personal property</p> <p>20 reduction at the local level.</p> <p>21 Q. And so, it's possible that changes in law over</p> <p>22 the next 10 years could restrict revenue to a degree that</p> <p>23 the City has to go back into bankruptcy again, correct?</p> <p>24 MR. STEWART: Objection.</p> <p>25 THE WITNESS: I can't comment on that.</p>
<p style="text-align: right;">Page 78</p> <p>1 R. CLINE</p> <p>2 Q. So you've updated your -- done a comprehensive</p> <p>3 update of your forecast about four times in the last</p> <p>4 year?</p> <p>5 A. Three times, I believe.</p> <p>6 Q. And are there other updates that aren't</p> <p>7 comprehensive updates that have occurred in addition to</p> <p>8 those three times?</p> <p>9 A. Not for all of those tax types.</p> <p>10 Q. But for some of the tax types, have there been</p> <p>11 other updates that you've done in addition to the three</p> <p>12 comprehensive updates?</p> <p>13 A. Revisiting the forecast was triggered by those</p> <p>14 major updates in the overall forecast.</p> <p>15 Q. Okay. But were there any other updates, or</p> <p>16 just the major ones?</p> <p>17 A. I don't recall. There may have been specific</p> <p>18 numbers for a single tax type, but I don't recall those</p> <p>19 separate estimates being done.</p> <p>20 Q. Have you ever done any calculations using tax</p> <p>21 rates that are greater than the ones you assume in your</p> <p>22 model?</p> <p>23 A. We did not, because we took current law as our</p> <p>24 assumption in the model.</p> <p>25 Q. But you know the law can change, correct?</p>	<p style="text-align: right;">Page 80</p> <p>1 R. CLINE</p> <p>2 BY MR. SMITH:</p> <p>3 Q. Okay. Well, you would agree that changes in</p> <p>4 law could restrict revenue significantly over the next 10</p> <p>5 years, correct?</p> <p>6 A. As I believe I mentioned, I think changes in</p> <p>7 law could either increase or decrease available revenues</p> <p>8 Q. And changes in law can certainly significantly</p> <p>9 increase available revenues to the City over the next 10</p> <p>10 years, correct?</p> <p>11 A. I wouldn't speculate on what direction they're</p> <p>12 going to move in.</p> <p>13 Q. Okay. So, attempting to predict what the</p> <p>14 revenues available to the City over the next 10 years are</p> <p>15 would require you to speculate, correct?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: That is not correct. As I</p> <p>18 mentioned, our model is based upon current law tax</p> <p>19 rates, which are known with certainty and</p> <p>20 established by current law.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. You can't know with certainty what the tax</p> <p>23 rate will be five years from now, correct?</p> <p>24 A. That's correct.</p> <p>25 Q. You can't, in fact --</p>

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<p style="text-align: right;">Page 81</p> <p>1 R. CLINE</p> <p>2 A. Unless -- unless it's in law.</p> <p>3 Q. Well, you don't know what the -- the law can</p> <p>4 change within five years, correct?</p> <p>5 A. Correct, but the point is that in current law,</p> <p>6 there may be scheduled future tax rate changes. If so,</p> <p>7 we've taken those into consideration.</p> <p>8 Q. Okay. I see what you are saying.</p> <p>9 But there's no way for you to know what the</p> <p>10 tax rate is going to be within the 10-year period that</p> <p>11 you model, correct?</p> <p>12 A. We know with certainty what the tax rate is</p> <p>13 under current law.</p> <p>14 Q. Yeah. Right now, we know what the -- with</p> <p>15 certainty what the tax rate is, but there's no way for</p> <p>16 you to know what the tax rate will be two, five or 10</p> <p>17 years from now, correct?</p> <p>18 A. We know with certainty what the rate will be</p> <p>19 over that period, if they do not change current law.</p> <p>20 Q. But you have no way to know whether current</p> <p>21 law is going to be changed with respect to tax rates</p> <p>22 within the next 10 years, correct?</p> <p>23 A. That is correct.</p> <p>24 Q. And so you have no way of knowing what the tax</p> <p>25 rate is going to be over the course of the next 10 years,</p>	<p style="text-align: right;">Page 83</p> <p>1 R. CLINE</p> <p>2 current law what the tax rates in the City of</p> <p>3 Detroit will be.</p> <p>4 BY MR. SMITH:</p> <p>5 Q. But we know -- there's no way to tell whether</p> <p>6 current law will remain unchanged over the next 10 years,</p> <p>7 correct?</p> <p>8 A. I agree.</p> <p>9 Q. And so there's no way to tell what the actual</p> <p>10 tax rates will be, whether they'll be the current law tax</p> <p>11 rates or some other tax rates over the next 10 years,</p> <p>12 correct?</p> <p>13 A. We know with certainty what the current law</p> <p>14 rate is; we do not know what the legislature might do in</p> <p>15 changing the rates.</p> <p>16 Q. And we don't know what the City might do in</p> <p>17 changing rates, correct?</p> <p>18 A. I do not know what the City might do.</p> <p>19 Q. And in fact, we don't even know who the</p> <p>20 decision-makers will be with respect to many policies in</p> <p>21 the City that could affect your forecast, correct?</p> <p>22 A. I wouldn't answer that question.</p> <p>23 Q. I mean, there's no way for you to know who's</p> <p>24 going to be doing the decisionmaking in the City over the</p> <p>25 next 10 years, correct?</p>
<p style="text-align: right;">Page 82</p> <p>1 R. CLINE</p> <p>2 correct?</p> <p>3 A. We know with certainty what the tax rate over</p> <p>4 the next 10 years is, under current law.</p> <p>5 Q. But I'm not asking about current law. I'm</p> <p>6 saying, you have no way of knowing what the tax rate will</p> <p>7 be within the next 10 years, correct? Because you don't</p> <p>8 know whether the tax rate will be changed or not,</p> <p>9 correct?</p> <p>10 A. We know with certainty what the current law</p> <p>11 tax rate is over the next 10 years.</p> <p>12 Q. That's not my question.</p> <p>13 Okay, you understand I'm not asking about</p> <p>14 current law, correct? Do you understand that?</p> <p>15 MR. STEWART: Well, now you say you're not,</p> <p>16 so now ask the rest of your question.</p> <p>17 BY MR. SMITH:</p> <p>18 Q. Okay. Do you understand what I just said,</p> <p>19 that I'm not asking about what current law is, correct?</p> <p>20 A. Would you rephrase your question, then?</p> <p>21 Q. You have no way to know what the actual tax</p> <p>22 rates will be that are applicable to the City of Detroit</p> <p>23 over the next 10 years, correct?</p> <p>24 MR. STEWART: Objection.</p> <p>25 THE WITNESS: We know with certainty under</p>	<p style="text-align: right;">Page 84</p> <p>1 R. CLINE</p> <p>2 A. As I mentioned, our forecast is based upon</p> <p>3 current law. We are not -- we did not do alternatives</p> <p>4 which considered any tax rates other than current law.</p> <p>5 Q. Okay. Why is that?</p> <p>6 A. Because standard tax forecasting always</p> <p>7 assumes current law tax rates. Otherwise, you're</p> <p>8 analyzing policy options, not making a forecast.</p> <p>9 Q. And standard tax forecasting does not use</p> <p>10 current law tax rates to forecast taxes over 10 years,</p> <p>11 correct? You can't give me an example where that's</p> <p>12 happened?</p> <p>13 MR. STEWART: Objection.</p> <p>14 THE WITNESS: As I believe I mentioned, we</p> <p>15 always use current law, and if current law doesn't</p> <p>16 change over 10 years, you know with certainty what</p> <p>17 the tax rates are.</p> <p>18 BY MR. SMITH:</p> <p>19 Q. But you can't give me an example of any</p> <p>20 forecast for tax revenue that's ever assumed that tax</p> <p>21 rates will remain unchanged for 10 years, correct?</p> <p>22 A. There may be forecasts which do assume changes</p> <p>23 in tax rates.</p> <p>24 Q. Okay. And so, it's possible -- it's -- it</p> <p>25 would be fair to do a tax forecast that assumes changes</p>

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<p style="text-align: right;">Page 85</p> <p>1 R. CLINE</p> <p>2 in tax rates over 10 years, correct?</p> <p>3 A. Not in the work that I have done, either in</p> <p>4 Michigan or Minnesota or for the City of Detroit. The</p> <p>5 exercise was to come up with the best estimate of</p> <p>6 forecasted revenues over a defined period of time,</p> <p>7 assuming no change in current law.</p> <p>8 Q. You can't identify any tax forecast that's</p> <p>9 ever assumed that the current tax rates will remain</p> <p>10 unchanged for a period as long as 10 years, correct?</p> <p>11 A. I can't answer that question. I don't have</p> <p>12 knowledge to answer it.</p> <p>13 Q. So you can't identify an example, correct?</p> <p>14 A. I do not personally -- I cannot personally</p> <p>15 give you an example.</p> <p>16 MR. STEWART: We have been on the record</p> <p>17 about 90 minutes. Is this a good time to take a</p> <p>18 break?</p> <p>19 MR. SMITH: Yeah. Sure. We can take a</p> <p>20 break.</p> <p>21 THE VIDEOGRAPHER: Going off the record at</p> <p>22 10:36. This is the end of disk number one.</p> <p>23 (RECESS, 10:36 a.m. to 10:47 a.m.)</p> <p>24 THE VIDEOGRAPHER: The time is 10:47. This</p> <p>25 is the beginning of disk number two in the</p>	<p style="text-align: right;">Page 87</p> <p>1 R. CLINE</p> <p>2 side," that means increasing taxes or increasing other</p> <p>3 sources of revenue, correct?</p> <p>4 A. By increasing revenues, I mean either</p> <p>5 expansions in the tax base or perhaps changes in the tax</p> <p>6 rates.</p> <p>7 Q. Okay. And the City of Detroit could increase</p> <p>8 income tax revenues, correct?</p> <p>9 A. Excuse me?</p> <p>10 Q. The City of Detroit could increase income tax</p> <p>11 revenues and rates, correct?</p> <p>12 A. It's my understanding that the individual</p> <p>13 income tax rates in Detroit are fixed. I believe they're</p> <p>14 fixed by the State legislature.</p> <p>15 Q. Okay. And has Detroit asked the State</p> <p>16 legislature to increase the income tax rates?</p> <p>17 A. I don't know the answer that.</p> <p>18 Q. Okay. So, as far as you're aware, Detroit has</p> <p>19 not asked the State to increase income tax rates,</p> <p>20 correct?</p> <p>21 A. We were not asked to analysis alternative tax</p> <p>22 rates in the City of Detroit.</p> <p>23 Q. Okay. And so, as far as you're aware, the</p> <p>24 City of Detroit has not asked the State to increase tax</p> <p>25 rates, correct?</p>
<p style="text-align: right;">Page 86</p> <p>1 R. CLINE</p> <p>2 deposition of Robert Cline.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. Mr. Cline, you know that there are a number of</p> <p>5 cities throughout the country that are experiencing</p> <p>6 fiscal distress or fiscal crisis, correct?</p> <p>7 A. I have not been paying attention to what is</p> <p>8 going on in other cities.</p> <p>9 Q. Okay. And that includes in performing your</p> <p>10 analysis in this case, you haven't sought to educate</p> <p>11 yourself about that, correct?</p> <p>12 A. As I believe I mentioned earlier, when we were</p> <p>13 looking at population projections, that one of my staff</p> <p>14 persons looked at experience in other cities.</p> <p>15 Q. Okay. But as an expert on tax policy, you</p> <p>16 know in general that one way cities respond to fiscal</p> <p>17 stress is to raise taxes and fees, correct?</p> <p>18 A. Depends upon the city and the circumstances.</p> <p>19 Q. Yeah, but there are a number of cities that</p> <p>20 have raised taxes in response to fiscal crises or fiscal</p> <p>21 stress, correct?</p> <p>22 A. I believe a number of cities have both reduced</p> <p>23 spending and made changes on the revenue side in response</p> <p>24 to fiscal challenges.</p> <p>25 Q. And when you say "changes on the revenue</p>	<p style="text-align: right;">Page 88</p> <p>1 R. CLINE</p> <p>2 A. I haven't asked that question, if it's the</p> <p>3 case, but I'm not aware of any discussions.</p> <p>4 Q. Okay. The City of Detroit can increase tax</p> <p>5 revenue by increasing collections, correct?</p> <p>6 A. The City of Detroit can collect the dollar</p> <p>7 amounts that are currently owed in the existing tax</p> <p>8 system --</p> <p>9 Q. And --</p> <p>10 A. -- assuming they collect that revenue.</p> <p>11 Q. And you know that currently Detroit is not</p> <p>12 collecting all of the revenue it's owed for taxes,</p> <p>13 correct?</p> <p>14 A. I am not familiar with the specific collection</p> <p>15 policies and success in Detroit. We did, in our model,</p> <p>16 on the property tax side calculate what we called an</p> <p>17 effective collection rate. But it was based upon our</p> <p>18 calculation of two rate -- dividing one number by</p> <p>19 another.</p> <p>20 Q. And so, you haven't investigated at all what</p> <p>21 percent of taxes the City of Detroit is collecting,</p> <p>22 correct?</p> <p>23 A. As I mentioned, we do have an estimate of what</p> <p>24 we called the effective property tax collection rate.</p> <p>25 Q. But you haven't investigated what percent of</p>

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<p style="text-align: right;">Page 89</p> <p>1 R. CLINE</p> <p>2 the income tax the City of Detroit is collecting,</p> <p>3 correct?</p> <p>4 A. We have not done analysis of that issue.</p> <p>5 Q. And nobody has provided you information about</p> <p>6 what the rate of collection of the income tax is,</p> <p>7 correct?</p> <p>8 A. I'm not aware of that information. I don't</p> <p>9 know if someone else on the EY team may have received</p> <p>10 that information.</p> <p>11 Q. And you haven't done any investigation into</p> <p>12 the rate of collection of utility tax?</p> <p>13 A. I have not, as part of this project.</p> <p>14 Q. You haven't done any investigation into the</p> <p>15 rate of collection of the corporate tax?</p> <p>16 A. I have not.</p> <p>17 Q. Have you done any investigation into whether</p> <p>18 there are exemptions from the various taxes you analyzed?</p> <p>19 A. As I mentioned earlier, certainly on the</p> <p>20 property tax side, we've looked at different</p> <p>21 classifications of property because they have different</p> <p>22 assessment ratios, different features of the tax law,</p> <p>23 which we take into consideration in our revenue</p> <p>24 estimates.</p> <p>25 Q. And there are reductions or exemptions for</p>	<p style="text-align: right;">Page 91</p> <p>1 R. CLINE</p> <p>2 Q. Okay.</p> <p>3 A. We did not do that estimate.</p> <p>4 Q. Yeah. And it's not necessary to go into</p> <p>5 Chapter 9 to increase tax collections, correct?</p> <p>6 MR. STEWART: Objection.</p> <p>7 THE WITNESS: As I say, we did not look in</p> <p>8 detail at collections.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Well, that's not my question.</p> <p>11 Cities increase tax collections all the time</p> <p>12 without going into bankruptcy, correct?</p> <p>13 A. I can't answer that question. You'll have to</p> <p>14 rephrase it.</p> <p>15 Q. You can't tell me whether cities increase tax</p> <p>16 collections as an expert in this case?</p> <p>17 A. What we were asked to do by the City of</p> <p>18 Detroit was to estimate under current law the expected</p> <p>19 revenue stream over the next 10 years. And that is what</p> <p>20 we did in our analysis.</p> <p>21 Q. Yeah, but I'm asking you -- you have a life</p> <p>22 outside of working for the City of Detroit, right?</p> <p>23 A. I do.</p> <p>24 Q. Okay. And you're holding yourself out as an</p> <p>25 expert on tax policy, right?</p>
<p style="text-align: right;">Page 90</p> <p>1 R. CLINE</p> <p>2 property taxes, correct?</p> <p>3 A. Do you mean under current law?</p> <p>4 Q. Yes.</p> <p>5 A. I imagine there are. We didn't look</p> <p>6 specifically at changing specific exemptions under</p> <p>7 current law. We accepted it as current law.</p> <p>8 Q. Okay. You haven't done any analysis or</p> <p>9 investigation into the restructuring and reinvestment</p> <p>10 activities the City may perform relating to taxes?</p> <p>11 A. We are aware of the line items in the summary</p> <p>12 financial reports that list specific activities that are</p> <p>13 related to restructuring.</p> <p>14 Q. But do you -- you haven't done any</p> <p>15 investigation of what the City plans in terms of</p> <p>16 restructuring or reinvestment with respect to taxes,</p> <p>17 correct?</p> <p>18 A. When we were asked to do the restructuring</p> <p>19 forecast, we took into consideration the different</p> <p>20 proposals that -- for restructuring activities.</p> <p>21 Q. What is your understanding about what the City</p> <p>22 is planning to do with respect to taxes?</p> <p>23 A. I am aware that there is a line item in the</p> <p>24 financial reports for increased collections due to</p> <p>25 collection activities.</p>	<p style="text-align: right;">Page 92</p> <p>1 R. CLINE</p> <p>2 A. I don't describe myself as an expert on tax</p> <p>3 policy.</p> <p>4 Q. Okay.</p> <p>5 A. It's not a phrase we use at Ernst & Young.</p> <p>6 Q. Okay. Do you have any information about tax</p> <p>7 collection efforts by anybody? Is that something you</p> <p>8 know anything about?</p> <p>9 MR. STEWART: Objection.</p> <p>10 THE WITNESS: I am not an expert on</p> <p>11 compliance under existing law.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. Okay. The -- you've got a baseline scenario</p> <p>14 in your forecast in the restructuring scenario, correct?</p> <p>15 A. Correct.</p> <p>16 Q. And the baseline scenario is a status quo</p> <p>17 scenario where none of the restructuring or reinvestment</p> <p>18 activities are undertaken, correct?</p> <p>19 A. I believe that's a way to describe the</p> <p>20 baseline activity, the baseline scenario.</p> <p>21 Q. And you haven't constructed any forecasts for</p> <p>22 what would happen if the bankruptcy case were dismissed</p> <p>23 and the City just went on after bankruptcy doing reform</p> <p>24 efforts, correct?</p> <p>25 A. The baseline estimate that we did assumed no</p>

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<p style="text-align: right;">Page 93</p> <p>1 R. CLINE</p> <p>2 change of any underlying economics of the City of</p> <p>3 Detroit.</p> <p>4 Q. But the City can take actions that would</p> <p>5 change the underlying economics without going into</p> <p>6 Chapter 9, correct?</p> <p>7 A. I don't know the answer to that.</p> <p>8 Q. Okay. As far as you're aware, though, your</p> <p>9 baseline scenario is not trying to forecast what would</p> <p>10 happen if the petition for bankruptcy was dismissed?</p> <p>11 A. I would describe our baseline forecast as a</p> <p>12 continuation of the trends that have been affecting</p> <p>13 Detroit over the last 10 years to 20 years.</p> <p>14 Q. And has anybody from the City told you that</p> <p>15 they're going to allow the trends that have continued to</p> <p>16 continue into the future?</p> <p>17 A. I haven't had those conversations myself.</p> <p>18 Q. I mean, do you have any understanding about</p> <p>19 why you have this baseline scenario in your report?</p> <p>20 A. My understanding is that the baseline scenario</p> <p>21 reflects expected revenue streams under current law in a</p> <p>22 continuation of recent economics in the City of Detroit.</p> <p>23 Q. Do you have any understanding of what</p> <p>24 activities the City will or will not perform in the</p> <p>25 baseline scenario?</p>	<p style="text-align: right;">Page 95</p> <p>1 R. CLINE</p> <p>2 not offering an opinion that raising tax rates would be</p> <p>3 unreasonable, correct?</p> <p>4 A. I'm not commenting on any tax policy options</p> <p>5 available to the City of Detroit.</p> <p>6 Q. You know that question -- there could be a yes</p> <p>7 or no answer to that question, right?</p> <p>8 A. My perspective is that we were asked to do</p> <p>9 revenue forecasts of the major revenue sources under</p> <p>10 current law. We were not asked nor did I volunteer</p> <p>11 information on alternatives available to the City of</p> <p>12 Detroit.</p> <p>13 Q. Okay. So, you haven't done any work that will</p> <p>14 allow you to testify that raising tax rates would be</p> <p>15 unreasonable or inappropriate, correct?</p> <p>16 A. I have not.</p> <p>17 Q. And you haven't done any work that says that</p> <p>18 increasing tax revenues through increased collections</p> <p>19 would be --</p> <p>20 (Telephone interruption.)</p> <p>21 MR. STEWART: Just hit one. Thanks.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. -- inappropriate or not feasible, correct?</p> <p>24 A. He we have not evaluated tax policy</p> <p>25 opportunities -- alternatives for Detroit.</p>
<p style="text-align: right;">Page 94</p> <p>1 R. CLINE</p> <p>2 A. I do not.</p> <p>3 Q. Do you have any understanding of what</p> <p>4 activities the City will or will not perform in the</p> <p>5 restructuring scenario?</p> <p>6 A. I do not know the specifics of any</p> <p>7 alternatives.</p> <p>8 Q. Would raising the income tax rate be a</p> <p>9 reasonable policy for the City of Detroit?</p> <p>10 A. I can't comment on the policy options for</p> <p>11 Detroit. We were not asked to evaluate those as part of</p> <p>12 our analysis.</p> <p>13 Q. And so, you're offering no opinion that</p> <p>14 raising the income tax rate or property tax rates or</p> <p>15 utility tax rates or wagering tax rates or any of the</p> <p>16 other rates would be inappropriate or unreasonable,</p> <p>17 correct?</p> <p>18 A. We were not asked to evaluate any tax policy</p> <p>19 alternatives for the City of Detroit.</p> <p>20 Q. So, you're not offering any opinion saying</p> <p>21 that raising tax rates would be unreasonable, correct?</p> <p>22 A. I'm not commenting on policy options for the</p> <p>23 City of Detroit.</p> <p>24 Q. So, you're not offering -- I'm just trying to</p> <p>25 get an idea of what opinions you're offering. So, you're</p>	<p style="text-align: right;">Page 96</p> <p>1 R. CLINE</p> <p>2 Q. And you haven't done any work that would allow</p> <p>3 you to testify that Detroit couldn't just add new taxes,</p> <p>4 correct?</p> <p>5 A. We have not.</p> <p>6 Q. And you haven't done any work that would allow</p> <p>7 you to testify that Detroit couldn't generate significant</p> <p>8 additional revenue by either adding new taxes or</p> <p>9 increasing tax rates?</p> <p>10 MR. STEWART: Objection.</p> <p>11 MR. SMITH: Correct?</p> <p>12 THE WITNESS: We were not asked to look at</p> <p>13 policy options for the City of Detroit.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. And so, you haven't done any work that would</p> <p>16 allow you to testify that Detroit can't generate</p> <p>17 significant increased revenue through either increasing</p> <p>18 tax rates, increasing collections, or adding new taxes,</p> <p>19 correct?</p> <p>20 MR. STEWART: Objection.</p> <p>21 THE WITNESS: I think there may have been a</p> <p>22 double negative in there. Could you repeat the</p> <p>23 question?</p> <p>24 BY MR. SMITH:</p> <p>25 Q. You haven't done any work that will allow you</p>

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<p style="text-align: right;">Page 97</p> <p>1 R. CLINE</p> <p>2 to testify that Detroit can't significantly increase</p> <p>3 revenues by increasing tax rates or increasing tax</p> <p>4 collections or by adding new taxes, correct?</p> <p>5 MR. STEWART: Objection.</p> <p>6 THE WITNESS: We have done no analysis --</p> <p>7 excuse me.</p> <p>8 MR. STEWART: Go ahead.</p> <p>9 THE WITNESS: We have done no analysis on</p> <p>10 tax policy options in Detroit.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. So, the answer is correct, correct?</p> <p>13 A. I am still having --</p> <p>14 MR. STEWART: Reread the question.</p> <p>15 THE WITNESS: Please, reread the question,</p> <p>16 I think the double negative is still there.</p> <p>17 (The record was read back by the reporter.)</p> <p>18 THE WITNESS: I believe the correct answer</p> <p>19 to that question is, as I mentioned, we have looked</p> <p>20 at the collection rate of the property tax. We</p> <p>21 calculated an effective collection rate, and we did</p> <p>22 use that in our forecast.</p> <p>23 We did not -- were not asked to and did not</p> <p>24 provide forecasts under alternative policy options,</p> <p>25 whether it's a tax rate change or adoption of a new</p>	<p style="text-align: right;">Page 99</p> <p>1 R. CLINE</p> <p>2 question, please.</p> <p>3 (The record was read back by the reporter.)</p> <p>4 THE WITNESS: We accepted the current law</p> <p>5 tax rates as what was available to Detroit. To the</p> <p>6 extent that Detroit is at the maximum, and I</p> <p>7 believe it may be the case for all of those tax</p> <p>8 rates, it would imply that under current law, that</p> <p>9 option is not available.</p> <p>10 BY MR. SMITH:</p> <p>11 Q. But current law can change, correct?</p> <p>12 A. Correct.</p> <p>13 Q. And you would agree with me that if current</p> <p>14 law changes, Detroit can increase tax revenue</p> <p>15 significantly by increasing tax rates, correct?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: It is true that an increased</p> <p>18 rate, with no offsetting decrease in the base,</p> <p>19 could increase revenue, but if you were going to</p> <p>20 forecast the increase of a tax rate in Detroit, you</p> <p>21 would also have to forecast the potential decrease</p> <p>22 in the tax base with mobile people and investment.</p> <p>23 BY MR. SMITH:</p> <p>24 Q. And so, sitting here today, you haven't done</p> <p>25 the work that would allow you to testify that increasing</p>
<p style="text-align: right;">Page 98</p> <p>1 R. CLINE</p> <p>2 tax, or change, in the base of an existing tax.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. So, you -- Ernst & Young concluded that the</p> <p>5 City could increase property tax revenues by increasing</p> <p>6 collections, correct?</p> <p>7 A. In our forecast of the property tax revenues,</p> <p>8 we did vary the collection rate over time.</p> <p>9 Q. And you increased the collection rate; is that</p> <p>10 correct, or do you not know?</p> <p>11 A. From what I remember, we may have brought the</p> <p>12 collection rate down, in the intermediate run, and then</p> <p>13 brought it back up in the longer run.</p> <p>14 Q. Okay. But you haven't -- you haven't done any</p> <p>15 work that would allow you to testify that Detroit can't</p> <p>16 significantly increase revenues by increasing tax rates,</p> <p>17 correct?</p> <p>18 MR. STEWART: Objection.</p> <p>19 THE WITNESS: All of our revenue estimates</p> <p>20 are based upon current law rates.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. So, the answer to my question is correct? You</p> <p>23 haven't done the work?</p> <p>24 MR. STEWART: Objection.</p> <p>25 THE WITNESS: Could you repeat the</p>	<p style="text-align: right;">Page 100</p> <p>1 R. CLINE</p> <p>2 tax rates wouldn't result in significant additional</p> <p>3 revenue for the City of Detroit, correct?</p> <p>4 MR. STEWART: Objection.</p> <p>5 THE WITNESS: As I believe I've answered</p> <p>6 several times, we did not evaluate alternative</p> <p>7 policies. We accepted current law as the</p> <p>8 foundation for our forecast.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Okay. So the answer is correct, you didn't do</p> <p>11 that work, correct?</p> <p>12 A. Would you rephrase the question.</p> <p>13 Q. You didn't do any work that would allow you to</p> <p>14 testify that by increasing tax rates, Detroit would not</p> <p>15 increase substantially its tax revenues?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: We did not run alternatives</p> <p>18 with our model at different tax rates.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. That's something that you could have done,</p> <p>21 right? That's technically feasible for you to do,</p> <p>22 correct?</p> <p>23 A. We were not asked to do that analysis.</p> <p>24 Q. Okay. But is it technically feasible for you</p> <p>25 to do an analysis like that?</p>

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<p style="text-align: right;">Page 101</p> <p>1 R. CLINE</p> <p>2 A. We would have to do additional work compared</p> <p>3 to what we have done to this point, because as I</p> <p>4 mentioned, it's not just changing the rate, it's also</p> <p>5 understanding the behavioral response of the base in</p> <p>6 response to the change in the rate. We are not set up to</p> <p>7 do that in our current runs.</p> <p>8 Q. And you also haven't done the work that would</p> <p>9 allow you to testify that Detroit couldn't significantly</p> <p>10 increase revenues by adding new taxes, correct?</p> <p>11 A. We have not analyzed the addition of new</p> <p>12 revenue sources for Detroit.</p> <p>13 Q. Okay. The -- one potential new revenue source</p> <p>14 would be imposing the commuter tax, correct? That's a</p> <p>15 reasonable --</p> <p>16 A. I don't know if it's legally available to</p> <p>17 Detroit as an option.</p> <p>18 Q. Okay. But imposing a commuter tax is</p> <p>19 something that the City could either do by itself or in</p> <p>20 conjunction with the State, correct?</p> <p>21 A. I don't know the answer to that.</p> <p>22 Q. Okay. So, you haven't investigated whether</p> <p>23 Detroit could add a commuter tax, correct?</p> <p>24 A. I have not.</p> <p>25 Q. All right. Another potential -- that you know</p>	<p style="text-align: right;">Page 103</p> <p>1 R. CLINE</p> <p>2 revenue options for the City of Detroit.</p> <p>3 Q. Okay. You only did the work that you were</p> <p>4 asked by the lawyers for the City to do, correct?</p> <p>5 MR. STEWART: Objection.</p> <p>6 THE WITNESS: We were given an assignment</p> <p>7 by Ernst & Young to provide a revenue estimate of</p> <p>8 the major tax sources for the City of Detroit over</p> <p>9 the next 10 years. Then it was expanded to an</p> <p>10 additional 30-year perspective. That is the job</p> <p>11 that we were asked to do, and that is what we did</p> <p>12 and is reported on in the expert report.</p> <p>13 BY MR. SMITH:</p> <p>14 Q. Who asked you to do that job?</p> <p>15 A. That was a -- we were retained by the Ernst &</p> <p>16 Young team working in Detroit.</p> <p>17 Q. Okay. So, it wasn't Mr. Malhotra that gave</p> <p>18 you the scope of the work that you were to perform in</p> <p>19 this case?</p> <p>20 A. I believe our initial discussions of the scope</p> <p>21 of the work did come from him.</p> <p>22 Q. Would it be fair to say that you haven't done</p> <p>23 any analysis of the full range of potential revenue</p> <p>24 sources available to the City?</p> <p>25 MR. STEWART: Objection.</p>
<p style="text-align: right;">Page 102</p> <p>1 R. CLINE</p> <p>2 that there's cities, though, that have commuter taxes,</p> <p>3 right?</p> <p>4 A. There are selected cities that tax</p> <p>5 non-residents who are working in the city, as Detroit</p> <p>6 does. Some at differential rates, some at the same rate.</p> <p>7 Q. Okay. And they do that through a variety of</p> <p>8 mechanisms, correct?</p> <p>9 A. I believe they look basically like income</p> <p>10 taxes.</p> <p>11 Q. And sometimes they're parking lot-type -- you</p> <p>12 know, charges for fees for parking or other services that</p> <p>13 might disproportionately fall on non-residents?</p> <p>14 MR. STEWART: Objection.</p> <p>15 THE WITNESS: I'm not familiar with the</p> <p>16 details of those taxes.</p> <p>17 BY MR. SMITH:</p> <p>18 Q. All right. You know that some cities have a</p> <p>19 city-only sales tax, correct?</p> <p>20 A. City-only sales tax. I believe that is the</p> <p>21 case.</p> <p>22 Q. And you haven't investigated whether Detroit</p> <p>23 could increase revenues by adding a city-only sales tax,</p> <p>24 correct?</p> <p>25 A. As I answered earlier, we did not analyze any</p>	<p style="text-align: right;">Page 104</p> <p>1 R. CLINE</p> <p>2 THE WITNESS: We haven't done an analysis</p> <p>3 of any of the revenue options available to the</p> <p>4 City.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. And that would include both tax and non-tax</p> <p>7 revenue options?</p> <p>8 A. Correct.</p> <p>9 Q. I mean, if you were advising a City in</p> <p>10 financial distress, what actions would you advise them to</p> <p>11 take to increase revenue or cut costs?</p> <p>12 MR. STEWART: Objection.</p> <p>13 THE WITNESS: We are very careful in all of</p> <p>14 our projects at Ernst & Young not to make policy</p> <p>15 recommendations to governments.</p> <p>16 BY MR. SMITH:</p> <p>17 Q. Okay. So, Ernst & Young -- is it that you</p> <p>18 don't have the qualifications to make policy</p> <p>19 recommendations to governments or is there some other</p> <p>20 reason that you don't do that?</p> <p>21 A. We don't do that because those are political</p> <p>22 decisions. We don't make policy recommendations to</p> <p>23 individual units of government.</p> <p>24 Q. So, ultimately, the amount of revenue</p> <p>25 available to the City of Detroit and the amount of costs</p>

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<p style="text-align: right;">Page 105</p> <p>1 R. CLINE</p> <p>2 that it incurs are political decisions made by the people</p> <p>3 running Detroit, correct?</p> <p>4 A. I believe they're made by the city council,</p> <p>5 and to some extent by the State legislature.</p> <p>6 Q. Okay. And currently, the emergency manager is</p> <p>7 making the political decisions that dictate how much</p> <p>8 revenue the City has available and how much cost it's</p> <p>9 incurring; is that correct?</p> <p>10 A. I'm not familiar with the operations of the</p> <p>11 emergency financial manager.</p> <p>12 Q. Okay. So, you have no idea what the emergency</p> <p>13 manager does or what the emergency manager's powers are?</p> <p>14 A. I have not inquired as to what those are.</p> <p>15 Q. Have you inquired as to whether the City's</p> <p>16 already started undertaking any of the restructuring</p> <p>17 initiatives?</p> <p>18 A. I have not discussed specifically what is or</p> <p>19 is not being done in Detroit on the expenditure side.</p> <p>20 Q. And -- well, on the tax side, do you know</p> <p>21 whether the State has undertaken any of its</p> <p>22 restructuring? I mean, the City -- strike that.</p> <p>23 Let me start the question again, okay? Is</p> <p>24 that okay?</p> <p>25 A. Certainly.</p>	<p style="text-align: right;">Page 107</p> <p>1 R. CLINE</p> <p>2 Detroit, correct?</p> <p>3 A. Let me be very clear, to be as accurate as</p> <p>4 possible. My team, which resides in the National Tax</p> <p>5 Practice, here in Washington, D.C., part of Ernst &</p> <p>6 Young, has not been involved in analysis of specific</p> <p>7 activities related to collection. Other members of the</p> <p>8 EY team may have more knowledge, but we have not been</p> <p>9 involved in the collection discussions.</p> <p>10 Q. So, the team that did the tax forecasting at</p> <p>11 Ernst & Young has done no investigation into the tax</p> <p>12 collection practices of the City of Detroit; is that</p> <p>13 fair?</p> <p>14 A. That's not fair. As I've clearly stated, I</p> <p>15 hope, we inquired about changes in the assessment ratios</p> <p>16 and the property tax components in terms of re-evaluation</p> <p>17 of existing property. You might call that collection</p> <p>18 related. I would call it related to the administration</p> <p>19 of current law, in order that we could do a more accurate</p> <p>20 forecast when the reassessments start to flow through the</p> <p>21 property tax system.</p> <p>22 Q. Okay. Other than the property tax collections</p> <p>23 matters that you've discussed, the team that put together</p> <p>24 the tax forecasts for Ernst & Young didn't do any</p> <p>25 investigation into collection practices with respect to</p>
<p style="text-align: right;">Page 106</p> <p>1 R. CLINE</p> <p>2 Q. You have -- you don't know whether the City</p> <p>3 has already started undertaking restructuring or</p> <p>4 reinvestment activities that pertain to taxes; is that</p> <p>5 fair?</p> <p>6 A. I do know that the City is undertaking</p> <p>7 reassessment of the property tax base, and we've</p> <p>8 discussed that with them.</p> <p>9 Primarily, we needed to know the timing of</p> <p>10 that reassessment process, and yes, we found out</p> <p>11 additional information about that reassessment process</p> <p>12 Q. Has anybody told you whether the City has</p> <p>13 undertaken efforts to increase income tax collections?</p> <p>14 A. I am not familiar with any of the specifics of</p> <p>15 collection programs in Detroit.</p> <p>16 Q. So, with respect to all of the taxes that you</p> <p>17 discuss in your report, you're not familiar with the</p> <p>18 specifics of collection practices; is that fair?</p> <p>19 A. I think a more accurate statement is that</p> <p>20 other than the property tax forecast, we assumed</p> <p>21 collection rates would be unchanged, unless we had</p> <p>22 additional detailed information.</p> <p>23 Q. Yes. But you haven't done any investigation</p> <p>24 into any of the property -- investigation into any of the</p> <p>25 collection practices regarding taxes in the City of</p>	<p style="text-align: right;">Page 108</p> <p>1 R. CLINE</p> <p>2 any of the other taxes you addressed, correct?</p> <p>3 A. We did not make any inquiries as to collection</p> <p>4 practices. For the other taxes we were responsible for</p> <p>5 forecasting, we did look into details on the State</p> <p>6 revenue sharing program under current law, and worked</p> <p>7 closely with State officials to understand the current</p> <p>8 law revenue sharing program.</p> <p>9 Q. Yeah, but you didn't do any investigation into</p> <p>10 income or wagering or utility tax collections, correct?</p> <p>11 A. We did not do separate analysis of collection</p> <p>12 activities related to the taxes that you mentioned.</p> <p>13 Q. The -- have you ever heard of the Financial</p> <p>14 Stability Agreement?</p> <p>15 A. I'm not sure I have.</p> <p>16 Q. You wouldn't know what terms are contained in</p> <p>17 it, correct?</p> <p>18 A. That would be correct.</p> <p>19 Q. You wouldn't know who the parties are to it,</p> <p>20 correct?</p> <p>21 A. I don't know that.</p> <p>22 Q. All right. Do you know who the emergency</p> <p>23 manager is?</p> <p>24 A. I do.</p> <p>25 Q. Who is that?</p>

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<p style="text-align: right;">Page 109</p> <p>1 R. CLINE</p> <p>2 A. Now you put me on the spot. Orr is his name.</p> <p>3 Q. Do you know his first name?</p> <p>4 A. I did at one point. Kevyn.</p> <p>5 Q. Do you know who the treasurer for the City of</p> <p>6 Detroit is?</p> <p>7 A. I couldn't name the treasurer.</p> <p>8 Q. Can you name any of the officials in the City</p> <p>9 of Detroit that have involvement with taxes?</p> <p>10 A. I could not.</p> <p>11 Q. Do you know what the Creditor Proposal was?</p> <p>12 A. I'm not familiar with that.</p> <p>13 Q. So, you don't know what measures with respect</p> <p>14 to taxes were discussed in the Creditor Proposal?</p> <p>15 A. I do not.</p> <p>16 Q. You do know that the State has significantly</p> <p>17 cut revenue sharing over the last few years, correct?</p> <p>18 MR. STEWART: Objection.</p> <p>19 THE WITNESS: I know that there have been</p> <p>20 significant changes in the structure of the revenue</p> <p>21 sharing program with all local units of government</p> <p>22 in Michigan, including Detroit, and it is still</p> <p>23 under change, but -- through the last legislative</p> <p>24 session.</p> <p>25 BY MR. SMITH:</p>	<p style="text-align: right;">Page 111</p> <p>1 R. CLINE</p> <p>2 THE WITNESS: I don't know that.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. So, you haven't done any investigation into</p> <p>5 that?</p> <p>6 A. That is correct.</p> <p>7 Q. Have you done any investigation into the steps</p> <p>8 that other cities have taken with respect to taxes in</p> <p>9 order to help address fiscal distress or crisis?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: I have not.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. And that's not something you're aware of from</p> <p>14 your ordinary work?</p> <p>15 A. No, it's not.</p> <p>16 Q. You just not -- you just don't have knowledge</p> <p>17 about what cities have done with respect to taxes in</p> <p>18 responding to fiscal distress or fiscal crisis, correct?</p> <p>19 A. I believe that's an accurate statement.</p> <p>20 Q. Have you done any investigation into</p> <p>21 forecasting practices of other cities with respect to</p> <p>22 taxes?</p> <p>23 A. I have worked with other cities on some of</p> <p>24 their revenue issues where I have seen their practices,</p> <p>25 but I haven't investigated practices of other cities.</p>
<p style="text-align: right;">Page 110</p> <p>1 R. CLINE</p> <p>2 Q. Yeah. But you know that the revenue sharing</p> <p>3 for Detroit's decreased by hundreds of millions of</p> <p>4 dollars in the last few years, correct?</p> <p>5 A. I personally have not gone back to look at the</p> <p>6 dollar change in revenue sharing. I believe Caroline</p> <p>7 Sallee may have paid -- may have looked more closely at</p> <p>8 the recent history. I do know in the aggregate that the</p> <p>9 discretionary portion of the program has probably been</p> <p>10 reduced about 45% over the last ten years.</p> <p>11 Q. And you know that a number of cities in</p> <p>12 Michigan are in financial distress as a result of</p> <p>13 reduction in revenue sharing, correct?</p> <p>14 A. I don't know that.</p> <p>15 Q. Do you know whether other cities have</p> <p>16 emergency managers that have been appointed?</p> <p>17 A. I don't know the answer to that.</p> <p>18 Q. Do you know what the Disclosure Statement is?</p> <p>19 A. The trouble I have is that I'm an economist by</p> <p>20 training, not a lawyer by training. I don't know what</p> <p>21 some of these documents or definitions are.</p> <p>22 Q. When you revised your -- well, let me ask you</p> <p>23 this: There are cities outside of bankruptcy that are</p> <p>24 increasing tax collections, correct?</p> <p>25 MR. STEWART: Objection.</p>	<p style="text-align: right;">Page 112</p> <p>1 R. CLINE</p> <p>2 (Cline Exhibit 1 was marked for identification.)</p> <p>3 BY MR. SMITH:</p> <p>4 Q. I'm handing you what has been marked as</p> <p>5 Exhibit 1, and you can tell me if you have seen this</p> <p>6 document before?</p> <p>7 MR. STEWART: Maybe for the record, you</p> <p>8 might -- for those listening or others, just say</p> <p>9 what it is.</p> <p>10 MR. SMITH: Oh, it's the Fourth Amended</p> <p>11 Disclosure Statement with respect to Fourth Amended</p> <p>12 Plan.</p> <p>13 THE WITNESS: I have not read this</p> <p>14 document. I have looked at some detailed tables.</p> <p>15 I don't know if they were part of this. They don't</p> <p>16 appear to be attached to this document. I have not</p> <p>17 read this particular document.</p> <p>18 BY MR. SMITH:</p> <p>19 Q. Okay. Let me ask you, if you could turn to</p> <p>20 page 168. Before I ask you about 168, I've got another</p> <p>21 question.</p> <p>22 A. All right.</p> <p>23 Q. You wouldn't recommend that the City reduce</p> <p>24 tax rates, correct?</p> <p>25 A. We have no -- and I have no policy</p>

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<p style="text-align: right;">Page 121</p> <p>1 R. CLINE</p> <p>2 additional revenue would be generated by a significant</p> <p>3 increase in the collection rates for those taxes,</p> <p>4 correct?</p> <p>5 A. We have not done a separate adjustment for a</p> <p>6 change in the collection rate for those other taxes that</p> <p>7 you identified.</p> <p>8 Q. Is the collection rate essentially fixed in</p> <p>9 your model for those taxes?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: As I said, the collection</p> <p>12 rate is embedded in the starting point. We have</p> <p>13 not made a specific adjustment going forward for a</p> <p>14 collection rate change.</p> <p>15 BY MR. SMITH:</p> <p>16 Q. And so, there's -- the collection rate remains</p> <p>17 constant in your model for the income, wagering rate,</p> <p>18 utility users' tax, and corporate tax, correct?</p> <p>19 A. We have not dealt with a change in that</p> <p>20 collection rate as a separate adjustment to our revenue</p> <p>21 forecast.</p> <p>22 Q. Okay. And is it possible for you to do that</p> <p>23 kind of analysis, to look at what would happen if</p> <p>24 collection rates increased for those taxes?</p> <p>25 A. At this point, we do not have information</p>	<p style="text-align: right;">Page 123</p> <p>1 R. CLINE</p> <p>2 collection rate for property taxes, you didn't analyze</p> <p>3 the collection rate for the other taxes, that you</p> <p>4 examined?</p> <p>5 A. That is correct.</p> <p>6 Q. And is that because you weren't asked to do</p> <p>7 that analysis?</p> <p>8 A. No.</p> <p>9 Q. You just didn't do it, but you could have done</p> <p>10 it?</p> <p>11 A. We did not do it.</p> <p>12 Q. I mean, do you have any explanation for why</p> <p>13 you did it with respect to one tax but not the other</p> <p>14 taxes? Was it just a lack of information or what was it?</p> <p>15 MR. STEWART: Objection.</p> <p>16 THE WITNESS: Also involved is</p> <p>17 understanding what difference a change might make.</p> <p>18 Some of those smaller taxes like the utility user</p> <p>19 tax, corporate income tax are collecting 3% of the</p> <p>20 total that we looked at. We did not feel that at</p> <p>21 the margin a collection rate change was large</p> <p>22 enough to consider in the revenue estimate.</p> <p>23 So, it's partly an understanding of the</p> <p>24 relative size of the taxes, and the importance of</p> <p>25 compliance, adjustments, collection rate</p>
<p style="text-align: right;">Page 122</p> <p>1 R. CLINE</p> <p>2 necessary to analyze that question.</p> <p>3 Q. Okay. And you haven't been asked to analyze</p> <p>4 that question, correct?</p> <p>5 A. We have not, but as I mentioned, it is an</p> <p>6 important part of our property tax forecast.</p> <p>7 Q. Okay. So, even though you have been asked to</p> <p>8 analyze changes in collection rate for the property tax,</p> <p>9 you haven't been asked to analyze changes in the</p> <p>10 collection rate for the other taxes that you analyzed,</p> <p>11 correct?</p> <p>12 A. We were not asked separately to consider the</p> <p>13 collection rate issue for the property tax. We did it as</p> <p>14 part of our analysis of the property tax.</p> <p>15 Q. So, even though you weren't asked to do it,</p> <p>16 you looked at collection rates for the property tax,</p> <p>17 correct?</p> <p>18 A. We were asked to estimate over a 10-year</p> <p>19 period what we thought the collection of the property</p> <p>20 taxes will be under current law. We did understand the</p> <p>21 issues of falling property values, the mismatch between</p> <p>22 assessed values and market values and the other features</p> <p>23 that were affecting the property tax system, which did</p> <p>24 include the collection rate.</p> <p>25 Q. Okay. So, even though you analyzed the</p>	<p style="text-align: right;">Page 124</p> <p>1 R. CLINE</p> <p>2 differences going forward.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. And --</p> <p>5 A. Not all taxes are equal in that evaluation.</p> <p>6 Q. The income tax is a significant source of</p> <p>7 revenue for the City, correct?</p> <p>8 A. It's about a third.</p> <p>9 Q. Okay. And so, increasing the collection rate</p> <p>10 could significantly increase revenue from the income tax</p> <p>11 to the City, correct?</p> <p>12 A. I don't know the answer to that.</p> <p>13 Q. And you don't know the answer because you</p> <p>14 didn't look into it, correct?</p> <p>15 A. I don't know the answer because we did not do</p> <p>16 an analysis of the impact of changing collection rates in</p> <p>17 our analysis of the 10-year forecast.</p> <p>18 Q. And so -- but with respect to the income tax,</p> <p>19 so you would agree with me that changing the collection</p> <p>20 rate could result in significant increased revenue to the</p> <p>21 City, correct?</p> <p>22 MR. STEWART: Objection.</p> <p>23 THE WITNESS: I don't know if it would be</p> <p>24 significant.</p> <p>25 BY MR. SMITH:</p>

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<p style="text-align: right;">Page 137</p> <p>1 R. CLINE</p> <p>2 raising any of the other taxes that you discussed in your</p> <p>3 report?</p> <p>4 A. I am not aware of the -- of any conversations.</p> <p>5 Q. The -- as far as you're aware, the City hasn't</p> <p>6 asked the State to cooperate in implementing new taxes?</p> <p>7 A. I'm not aware of any discussions.</p> <p>8 Q. As far as you're aware, the City hasn't asked</p> <p>9 the State to cooperate in eliminating exemptions or</p> <p>10 reductions in applicable taxes?</p> <p>11 A. I'm not aware of any conversations.</p> <p>12 Q. Do you agree that in performing forecasting,</p> <p>13 it's important to follow generally accepted standards and</p> <p>14 procedures?</p> <p>15 A. I believe in forecasting State or local</p> <p>16 revenues, you want to use the best available tools that</p> <p>17 you have, starting with the most complete information on</p> <p>18 actual collections that you have.</p> <p>19 Q. So, in doing forecasts, it's important to</p> <p>20 assemble the most complete and comprehensive set of</p> <p>21 information in order to accurately perform your forecast,</p> <p>22 correct?</p> <p>23 A. That is correct, although different types of</p> <p>24 information are of different value, and when we did our</p> <p>25 forecast, I believe we incorporated what we thought were</p>	<p style="text-align: right;">Page 139</p> <p>1 R. CLINE</p> <p>2 current law?</p> <p>3 A. Some cases looking at tax returns and looking</p> <p>4 at tax statutes to see whether or not, for example, there</p> <p>5 was a scheduled rate change in current law.</p> <p>6 Q. You haven't done any investigation into what</p> <p>7 policy choices Detroit's leaders are contemplating that</p> <p>8 might affect your tax forecasts; is that fair?</p> <p>9 A. No.</p> <p>10 Q. Is that correct?</p> <p>11 A. We have not evaluated any alternative policy</p> <p>12 options for the City of Detroit.</p> <p>13 Q. And so, you haven't evaluated policy options</p> <p>14 that the City may currently be evaluating, correct?</p> <p>15 A. I believe I've answered that question clearly.</p> <p>16 Q. And the answer is correct, right?</p> <p>17 A. The answer is that we have not done any</p> <p>18 evaluation of policy options for the City of Detroit.</p> <p>19 Q. Do you agree with me that if, for example, tax</p> <p>20 rates change or collection rates materially go up, your</p> <p>21 forecast could turn out to be off by hundreds of millions</p> <p>22 of dollars?</p> <p>23 A. If current law changes, you would need a new</p> <p>24 forecast of what the expected revenues are.</p> <p>25 Q. And you agree that it's possible that your</p>
<p style="text-align: right;">Page 138</p> <p>1 R. CLINE</p> <p>2 the key drivers in determining the baseline forecast.</p> <p>3 Q. Okay. But as a general matter, in conducting</p> <p>4 forecasts, you want to assemble the most comprehensive</p> <p>5 set of information, correct?</p> <p>6 A. That is relevant to the forecast itself.</p> <p>7 Q. All right. You agree that somebody could</p> <p>8 perform a reasonable forecast that includes the effective</p> <p>9 changes in collection rates over time on the income tax,</p> <p>10 correct?</p> <p>11 A. It could be possible.</p> <p>12 Q. And you agree that people -- experts could</p> <p>13 conduct forecasts that come to reasonable outcomes that</p> <p>14 differ from yours in terms of your forecasting?</p> <p>15 A. There could be different results, certainly,</p> <p>16 depending upon the key assumptions and the approach</p> <p>17 that's used in doing the estimates.</p> <p>18 Q. And would it be fair to say that you haven't</p> <p>19 looked into the law regarding, you know, what the City's</p> <p>20 authority is respect to taxes?</p> <p>21 A. That is correct, in that we have not evaluated</p> <p>22 alternative revenue sources for the City of Detroit. We</p> <p>23 wanted certainly to make sure we understood current law</p> <p>24 in doing our revenue forecast.</p> <p>25 Q. Then how did you get an understanding of</p>	<p style="text-align: right;">Page 140</p> <p>1 R. CLINE</p> <p>2 forecast, depending on changes in the assumptions that</p> <p>3 may occur in the future, could be off by hundreds of</p> <p>4 millions of dollars, correct?</p> <p>5 A. I don't know what the magnitude would be. A</p> <p>6 very small change in the tax rate may change our numbers</p> <p>7 by 1 percent, so it depends upon the magnitude of the law</p> <p>8 change.</p> <p>9 Q. You agree that if there's significant changes</p> <p>10 in the assumptions, your forecast could be off by</p> <p>11 hundreds of millions of dollars, correct?</p> <p>12 A. I wouldn't agree to that general statement,</p> <p>13 no.</p> <p>14 Q. Well, I mean if the tax rate were increased by</p> <p>15 1 percent on the income tax or property tax or something</p> <p>16 like that, that could change your forecast by hundreds of</p> <p>17 millions of dollars, correct?</p> <p>18 A. One example I could respond to, because we did</p> <p>19 look at it in -- as part of the revenue forecast, we do</p> <p>20 know that the corporate income tax rate under current law</p> <p>21 doubled recently. It's only collecting \$26 million in</p> <p>22 total, that would be a \$12 million change in tax</p> <p>23 collections.</p> <p>24 Q. But if the income tax rate or the property tax</p> <p>25 rate doubled, the City would have significantly more</p>

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<p style="text-align: right;">Page 141</p> <p>1 R. CLINE</p> <p>2 money, hundreds of millions of dollars more, correct?</p> <p>3 A. I couldn't tell you what the magnitude of the</p> <p>4 change would be.</p> <p>5 Q. And --</p> <p>6 A. I'd have to run the model to see that.</p> <p>7 Q. So, you're incapable of offering any opinion</p> <p>8 regarding what would happen in terms of the amounts</p> <p>9 available to the City if the assumptions in your model</p> <p>10 significantly change, correct?</p> <p>11 A. We did not simulate different revenue</p> <p>12 forecasts based upon alternative tax rates. We did not</p> <p>13 do that.</p> <p>14 Q. Okay. But in general, for any of the</p> <p>15 assumptions, if the assumptions significantly change,</p> <p>16 you're not in a position to offer an expert opinion</p> <p>17 regarding what the revenues would be to the City of</p> <p>18 Detroit, correct?</p> <p>19 A. Not without re-running the model.</p> <p>20 Q. Do you know who the mayor of the City of</p> <p>21 Detroit is?</p> <p>22 A. I do remember I have been mispronouncing his</p> <p>23 last name. I don't recall.</p> <p>24 Q. Do you know what the role of the mayor or the</p> <p>25 city council is with respect to taxes?</p>	<p style="text-align: right;">Page 143</p> <p>1 R. CLINE</p> <p>2 your revenue estimates are accurate, correct?</p> <p>3 MR. STEWART: Objection.</p> <p>4 THE WITNESS: I'm not sure what "guarantee"</p> <p>5 means in this situation.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Well, I mean, you wouldn't vouch for the --</p> <p>8 there's no way to vouch for the accuracy of your revenue</p> <p>9 forecast, correct?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: We accept the responsibility</p> <p>12 for our revenue forecast. We believe we did it</p> <p>13 using the best information available, appropriate</p> <p>14 modeling approach, and we were very careful in</p> <p>15 what we were doing. That's what we can assert.</p> <p>16 BY MR. SMITH:</p> <p>17 Q. Did anybody from the City ask you to change</p> <p>18 some of the assumptions in your models?</p> <p>19 A. Not me personally, no.</p> <p>20 Q. And do you agree that there's no scientific</p> <p>21 literature or data available that quantifies any increase</p> <p>22 in tax revenue or revenue in general from restructuring</p> <p>23 or reinvestment proposals by the City?</p> <p>24 A. I am not familiar with any analysis related to</p> <p>25 Detroit's current situation that directly links spending</p>
<p style="text-align: right;">Page 142</p> <p>1 R. CLINE</p> <p>2 A. I do not know the details in Detroit.</p> <p>3 Q. And the emergency manager or his assistants</p> <p>4 haven't shared with you any plans or policies relating to</p> <p>5 taxes; is that fair?</p> <p>6 A. I believe that's accurate. We have not</p> <p>7 discussed alternative tax policy options for Detroit.</p> <p>8 Q. You're not offering any guarantee regarding</p> <p>9 the accuracy of your forecast, correct?</p> <p>10 A. That is correct.</p> <p>11 Q. I mean -- and there's a standard disclaimer</p> <p>12 that everybody, including Ernst & Young, uses that these</p> <p>13 kind of forecasts, you can't guarantee that they're</p> <p>14 accurate inherently, correct?</p> <p>15 MR. STEWART: Objection.</p> <p>16 THE WITNESS: The objective is using the</p> <p>17 existing information and your understanding of the</p> <p>18 underlying economics to get as solid an estimate of</p> <p>19 the expected revenue stream as you can get. That's</p> <p>20 the objective.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. Yeah.</p> <p>23 A. We won't know until after the fact how</p> <p>24 accurate the revenue estimates are.</p> <p>25 Q. So, you wouldn't guarantee to the Court that</p>	<p style="text-align: right;">Page 144</p> <p>1 R. CLINE</p> <p>2 initiatives to specific revenue changes -- tax changes,</p> <p>3 which is what we looked at, just the tax changes.</p> <p>4 Q. Yeah. Do you which department of the City</p> <p>5 collects the various taxes?</p> <p>6 A. I have been to the website to look for tax</p> <p>7 return information. I don't recall what -- might have</p> <p>8 been the finance agency. Don't recall exactly what the</p> <p>9 name of the agency is.</p> <p>10 Q. Do you know if different agencies collect</p> <p>11 different taxes in Detroit?</p> <p>12 A. I am not familiar with the mechanics of who's</p> <p>13 responsible for depositing the money in the bank.</p> <p>14 Q. So, you don't know the -- which department</p> <p>15 actually collects each of the taxes you analyze; is that</p> <p>16 fair?</p> <p>17 A. For our revenue forecast, it was not one of</p> <p>18 the elements we thought was significant.</p> <p>19 Q. Yeah. So, you don't know that information,</p> <p>20 correct?</p> <p>21 A. I don't think I know it off the top of my</p> <p>22 head, no.</p> <p>23 Q. Do you know who does the forecasting for the</p> <p>24 City?</p> <p>25 A. I do know that the City has a consensus</p>

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<p style="text-align: right;">Page 145</p> <p>1 R. CLINE</p> <p>2 forecasting approach, which I believe they borrowed from</p> <p>3 the State or adapted after the State model. I think</p> <p>4 there may be three separate groups of people that do the</p> <p>5 forecast, they reach a consensus, and it's published in</p> <p>6 the spring each year.</p> <p>7 Q. Before this consensus group was put together,</p> <p>8 do you know whether the City -- I mean, as far as you</p> <p>9 know, did the City ever do any kind of forecasting for</p> <p>10 taxes or other purposes?</p> <p>11 A. I don't know what the mechanism was in the</p> <p>12 City for preparing the budget.</p> <p>13 Q. The only forecasting you're aware that the</p> <p>14 City has ever conducted is this consensus forecast that's</p> <p>15 done; is that correct?</p> <p>16 A. No. What is correct is that since I have been</p> <p>17 involved in this project, my understanding of the</p> <p>18 forecasting process is based on my understanding there is</p> <p>19 a consensus forecasting process.</p> <p>20 Q. And your forecast does not agree with the</p> <p>21 consensus forecast, correct?</p> <p>22 A. I'm not sure how it differs.</p> <p>23 Q. Okay.</p> <p>24 A. I do know that we did not adopt the consensus</p> <p>25 forecast back in 2013.</p>	<p style="text-align: right;">Page 147</p> <p>1 R. CLINE</p> <p>2 consensus forecasts do not try to forecast revenues or</p> <p>3 expenditures beyond two or three years, correct?</p> <p>4 A. What is correct is that they are geared to the</p> <p>5 budgetary cycle. If the city council considers four-year</p> <p>6 budget horizons, that's what the tax forecast will be.</p> <p>7 If it's a two-year horizon, it will be a two-year</p> <p>8 forecast.</p> <p>9 Q. You're not aware of anybody at the City ever</p> <p>10 suggesting that there should be a forecast for as long as</p> <p>11 10 years, correct?</p> <p>12 A. I'm not aware of any of the procedures the</p> <p>13 City has used in the past.</p> <p>14 Q. You didn't do any sensitivity analyses to</p> <p>15 figure out which are the most important drivers of your</p> <p>16 numbers, or did you?</p> <p>17 A. We selected the drivers based upon what we</p> <p>18 believed were important determinants of the tax base and</p> <p>19 its growth over time. We did not perform specific</p> <p>20 exercises where we increased a parameter by 10 percent or</p> <p>21 lowered it by 10 percent.</p> <p>22 Q. Okay. So, you don't know which parameters</p> <p>23 have the most impact on your forecasts?</p> <p>24 A. Based upon my professional experience, I have</p> <p>25 a -- an idea of what matters.</p>
<p style="text-align: right;">Page 146</p> <p>1 R. CLINE</p> <p>2 Q. Okay. I mean, but you know that there are</p> <p>3 differences between your forecast and the consensus</p> <p>4 forecast; is that fair?</p> <p>5 MR. STEWART: Objection.</p> <p>6 THE WITNESS: If there are differences, I</p> <p>7 don't know what the magnitudes are.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Have you done any investigation to look at the</p> <p>10 consensus forecast to see whether you're consistent or</p> <p>11 inconsistent with the consensus forecast?</p> <p>12 A. I've read the latest consensus forecast and we</p> <p>13 did not make any changes in our forecast based upon what</p> <p>14 I read.</p> <p>15 Q. Okay. Having read it, though, you know that</p> <p>16 there are differences between your forecast and the</p> <p>17 consensus forecast, correct?</p> <p>18 A. I'm not aware of what the magnitude of those</p> <p>19 differences are.</p> <p>20 Q. But you know there are differences between</p> <p>21 your --</p> <p>22 A. I would assume --</p> <p>23 Q. -- forecast and the consensus forecast?</p> <p>24 A. I would assume there are differences.</p> <p>25 Q. And I think we already mentioned it, but the</p>	<p style="text-align: right;">Page 148</p> <p>1 R. CLINE</p> <p>2 Q. But you haven't done any testing or analysis</p> <p>3 to figure out which parameters have the most impact on</p> <p>4 your analysis and what effect changing them would be --</p> <p>5 would have on your outcomes, correct?</p> <p>6 A. We have a wide range of assumptions from</p> <p>7 statutory tax rates to changes in employment. They have</p> <p>8 different effects on the dollar amounts of the revenue</p> <p>9 estimates for specific taxes. All of that was considered</p> <p>10 in preparing our revenue estimate.</p> <p>11 Q. Yeah. But you didn't do any analysis where</p> <p>12 you changed parameters to figure out what the impact</p> <p>13 would be on your outcomes, correct?</p> <p>14 A. As I say, we did not do specific simulations</p> <p>15 where we increased one of 50 parameters by 10 percent,</p> <p>16 holding others constant, or reduced it by 10 percent</p> <p>17 holding others constant, or changing all 50 by 10</p> <p>18 percent. We did not do that.</p> <p>19 Q. Is that something that you've done in prior</p> <p>20 forecasts?</p> <p>21 A. In deriving point estimates for revenues</p> <p>22 related to budget preparation, that tends not to be done.</p> <p>23 You do your best point forecast of your revenue figure</p> <p>24 based upon your knowledge of what is most significant,</p> <p>25 what is less significant, and your best estimate of what</p>

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<p style="text-align: right;">Page 149</p> <p>1 R. CLINE</p> <p>2 the values of those parameters should be.</p> <p>3 It's not an exercise of creating a band of</p> <p>4 possible outcomes around the point estimate. That's not</p> <p>5 how it operates.</p> <p>6 Q. Have you ever forecast tax revenues where you</p> <p>7 have created a band of possible outcomes?</p> <p>8 A. Not that I remember.</p> <p>9 MR. SMITH: You want to take a quick break,</p> <p>10 if you don't mind?</p> <p>11 MR. STEWART: Sure. For how long?</p> <p>12 MR. SMITH: I don't know, five minutes?</p> <p>13 MR. STEWART: Yeah. Five minutes is fine.</p> <p>14 THE VIDEOGRAPHER: We're off the record at</p> <p>15 12:14.</p> <p>16 (RECESS, 12:14 p.m. - 12:22 p.m.)</p> <p>17 THE VIDEOGRAPHER: On the record at 12:22.</p> <p>18 (Cline Exhibit 2 was marked for identification.)</p> <p>19 BY MR. SMITH:</p> <p>20 Q. I've handed you Exhibit 2, which is an article</p> <p>21 from the Detroit News, entitled "Reverse Commute May Hike</p> <p>22 Tax Bill."</p> <p>23 Do you see that? Have you got that?</p> <p>24 A. I have the document.</p> <p>25 Q. Okay. And you see that this article discusses</p>	<p style="text-align: right;">Page 151</p> <p>1 R. CLINE</p> <p>2 Q. Okay. And then this article goes on to say in</p> <p>3 the fifth paragraph, "A study released by consultants</p> <p>4 MacKenzie & Company, estimated that uncollected income</p> <p>5 taxes from Detroit residents working outside the city, or</p> <p>6 reverse commuters, totaled more than 140 million in 2009.</p> <p>7 That means the City took in slightly less than half of</p> <p>8 what it should."</p> <p>9 Do you see that?</p> <p>10 A. I do.</p> <p>11 Q. Were you aware of the MacKenzie study that</p> <p>12 showed that the City was failing to collect as much as</p> <p>13 \$140 million?</p> <p>14 A. No, I was not. I'm sorry.</p> <p>15 Q. Okay. Nobody shared that with you from the</p> <p>16 City?</p> <p>17 A. I was not aware of that study.</p> <p>18 Q. Okay. Would it be fair to say that there's a</p> <p>19 significant amount of income tax that's not being</p> <p>20 collected from reverse commuters?</p> <p>21 MR. STEWART: Objection.</p> <p>22 THE WITNESS: I can't comment. I'm not</p> <p>23 familiar with the estimates.</p> <p>24 BY MR. SMITH:</p> <p>25 Q. Before you did your forecasting in this case,</p>
<p style="text-align: right;">Page 150</p> <p>1 R. CLINE</p> <p>2 how the emergency manager's restructuring plan includes a</p> <p>3 proposal to try to collect income taxes from Detroit</p> <p>4 residents who work outside the city limits? Do you see</p> <p>5 that?</p> <p>6 A. Just glancing at it, I'm not sure what</p> <p>7 mechanism they're discussing for increasing tax</p> <p>8 collections.</p> <p>9 Q. It's withholding. It talks about withholding.</p> <p>10 If you look at the third paragraph, it says, "The City is</p> <p>11 considering the enactment of a local ordinance that would</p> <p>12 require employers to withhold City income taxes of</p> <p>13 reverse commuters. The disclosure statement reads, 'It's</p> <p>14 not a new strategy, but one likely to draw opposition in</p> <p>15 some circles.'"</p> <p>16 Do you see that?</p> <p>17 A. I do see that, yes.</p> <p>18 Q. Okay. Nobody ever disclosed to you that there</p> <p>19 were proposals to increase tax collections by withholding</p> <p>20 taxes from reverse commuters, correct?</p> <p>21 A. I was aware that that was an issue that had</p> <p>22 been raised.</p> <p>23 Q. Okay. How were you aware of that?</p> <p>24 A. I think it was reading descriptions of</p> <p>25 considerations.</p>	<p style="text-align: right;">Page 152</p> <p>1 R. CLINE</p> <p>2 would you have liked to know about this MacKenzie study</p> <p>3 that showed that there were potentially \$140 million in</p> <p>4 income tax not being collected?</p> <p>5 A. In answering your question, I think it's</p> <p>6 important to note that in the plan -- I believe the</p> <p>7 correct phrase is "Plan of Adjustment," there is a number</p> <p>8 for increased compliance collections. It is independent</p> <p>9 and separate from our revenue estimate based upon current</p> <p>10 law and what we think the underlying economics is. I</p> <p>11 believe you see both of those numbers in the Plan of</p> <p>12 Adjustment.</p> <p>13 If you had that document, I could point that</p> <p>14 out to you, but it's important in answering your question</p> <p>15 to note that we were responsible for the economics,</p> <p>16 tax -- economics related under current law tax</p> <p>17 collections, I believe there's a separate line item which</p> <p>18 identifies the potential increase from collection</p> <p>19 activities. I believe we've avoided double counting</p> <p>20 those numbers, but I do believe they're separate</p> <p>21 exercises.</p> <p>22 Q. Okay. So your forecast doesn't attempt to</p> <p>23 quantify the total amount of money that's potentially</p> <p>24 available from tax revenue to the City of Detroit,</p> <p>25 correct?</p>

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<p style="text-align: right;">Page 165</p> <p>1 R. CLINE</p> <p>2 the consensus estimates for the growth in wagering tax</p> <p>3 revenue. Do you see that?</p> <p>4 A. Yes.</p> <p>5 Q. And the consensus statement says, "Fiscal year</p> <p>6 2014, consensus estimate remains flat with an additional</p> <p>7 decline of 1.2 percent projected by fiscal year 2015."</p> <p>8 Do you see that?</p> <p>9 A. Yes.</p> <p>10 Q. And then it says "A turnaround is expected in</p> <p>11 fiscal year 2016 with a consensus projecting 1.5 percent</p> <p>12 growth."</p> <p>13 Do you see that?</p> <p>14 A. Yes.</p> <p>15 Q. So, the consensus estimate is for 1.5 percent</p> <p>16 growth in wagering tax going forward from the fiscal year</p> <p>17 2016, correct?</p> <p>18 A. Yes.</p> <p>19 Q. And that's not -- that's inconsistent with the</p> <p>20 rate of growth that you used, correct?</p> <p>21 A. If I could correct my prior answer.</p> <p>22 Q. Okay.</p> <p>23 A. It doesn't talk about going forward. The last</p> <p>24 year that's mentioned is FY 2016.</p> <p>25 Q. Okay. So then --</p>	<p style="text-align: right;">Page 167</p> <p>1 R. CLINE</p> <p>2 A. I read that, yes.</p> <p>3 Q. And did you -- in your forecast, you don't</p> <p>4 model a turnaround in wagering tax revenue in fiscal year</p> <p>5 2016, do you?</p> <p>6 A. Specifically what we've done in our forecast</p> <p>7 is we had, back in 2013, correctly picked up the fall in</p> <p>8 wagering collections in Detroit. We got that pretty</p> <p>9 close back in 2013. And we had it pretty close for 2014.</p> <p>10 We knew they were falling because of the opening of the</p> <p>11 new casinos in Ohio.</p> <p>12 We are not bringing it back as quickly in our</p> <p>13 forecast as the Detroit consensus forecast.</p> <p>14 Q. Okay. So, the Detroit consensus forecast has</p> <p>15 a higher wagering tax revenue growth figure than you use,</p> <p>16 correct?</p> <p>17 A. Certainly in FY 2016, that's the case.</p> <p>18 Q. Okay. And you don't use any mathematical</p> <p>19 formula to generate your wagering tax rate growth figure,</p> <p>20 do you?</p> <p>21 A. I wouldn't say that we had a mathematical</p> <p>22 formula. We have mathematical calculations within the</p> <p>23 Excel spreadsheet.</p> <p>24 Q. What is the mathematical calculations that</p> <p>25 generate the wagering tax growth rate?</p>
<p style="text-align: right;">Page 166</p> <p>1 R. CLINE</p> <p>2 A. I don't know if they've projected it into the</p> <p>3 future.</p> <p>4 Q. Okay. The wage -- the revenue -- the wagering</p> <p>5 tax revenue growth figures that you used are not</p> <p>6 consistent with the consensus estimate; yours are</p> <p>7 different, correct?</p> <p>8 A. I believe we're not far off. We might be at</p> <p>9 a .5 percent rate of growth instead of a 1.5 percent</p> <p>10 growth, but we do have them, I believe, growing at some</p> <p>11 point in that interval of the forecast.</p> <p>12 Q. But you don't use the same numbers for</p> <p>13 wagering tax revenue as the consensus estimate, correct?</p> <p>14 A. If I understand your question, in 2013, when</p> <p>15 we made the original revenue estimates, we did not use</p> <p>16 the consensus forecast numbers, nor have we changed our</p> <p>17 current forecast based upon the -- this new 2014</p> <p>18 consensus forecast.</p> <p>19 Q. Okay. So, as a result, the numbers you used</p> <p>20 for forecasting wagering tax revenue are different than</p> <p>21 the numbers in the consensus forecast, correct?</p> <p>22 A. It appears to be the case.</p> <p>23 Q. And the consensus forecast notes that there's</p> <p>24 expected to be a turnaround in wagering tax revenue in</p> <p>25 fiscal year 2016, correct?</p>	<p style="text-align: right;">Page 168</p> <p>1 R. CLINE</p> <p>2 A. We specify the expected rates of growth,</p> <p>3 updated -- we updated the beginning point for actual tax</p> <p>4 collections, and extrapolated those numbers into the</p> <p>5 future.</p> <p>6 Q. But is the -- the actual rate of growth that</p> <p>7 you used, though, is that a number you calculated, or is</p> <p>8 that a number that you --</p> <p>9 A. That's an assumption --</p> <p>10 Q. -- input?</p> <p>11 A. -- that we input into the model.</p> <p>12 Q. Okay. And the number you use for the wagering</p> <p>13 rate growth -- the growth rate for wagering taxes is an</p> <p>14 assumption that you personally made?</p> <p>15 A. I, in a sense, was responsible for all of the</p> <p>16 assumptions that are in the model.</p> <p>17 Q. Yeah.</p> <p>18 A. I'm not sure what you mean by am I personally</p> <p>19 responsible for the number.</p> <p>20 Q. Well, who picked the wagering tax rate growth</p> <p>21 rate that you use to calculate wagering tax revenue?</p> <p>22 A. I signed off on that assumption.</p> <p>23 Q. And that's an assumption that was made,</p> <p>24 correct?</p> <p>25 A. Correct.</p>

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2 Q. And do you know how that assumption was
3 generated?

4 A. I do.

5 Q. Okay. How was it generated?

6 A. It was looking at what is going on around the
7 states in the collection of wagering income -- taxes from
8 gross receipts based upon wagering. A number of states
9 are quite disappointed in the revenue they're now
10 receiving because of the rapid expansion of gambling in
11 competitive, close-by states.

12 We felt that based upon that experience that a
13 relatively low positive rate of growth, somewhere
14 between .5 and 1 percent, was a reasonable assumption for
15 Detroit, given the increasing competition in a relatively
16 close geographic area.

17 Q. You didn't use any body of data to generate
18 the wagering tax growth rate, correct?

19 A. As I mentioned, we did look at the actual
20 collection figures --

21 Q. Okay.

22 A. -- reported by the states. We had some idea
23 of what was going on nationwide.

24 Q. But you didn't calculate the wagering tax
25 growth rate, correct? You picked that number?

1 R. CLINE

2 economics in Detroit, which would, as separate factors,
3 contribute to positive growth in the wagering gross
4 receipts. We felt that the balance of those two forces
5 would lead to a slight increase in revenue.

6 Q. But there's no scientific study or formula
7 that tells you whether you should pick 1.2 percent or 1.3
8 percent for the wagering tax growth rate, correct?

9 A. In all of the revenue estimating that I have
10 done, there is no precise formula that gives you the
11 resulting revenue estimate. There are equations that are
12 based upon history that you use to get an initial
13 starting point, and then economists do what we call add
14 factors, dummy variables and adjustments. No economic --
15 no revenue forecaster at the state level accepts the
16 numbers coming out of an equation. They start there, and
17 then they modify it.

18 We used what we thought was relevant,
19 additional information to determine these growth rates.
20 There was not a single mechanical formula that generated
21 the .5 or the 1.0 number.

22 Q. I mean, at the end of the day, the wagering
23 tax growth rate that you used is a number that you just
24 picked, right?

25 A. As the City did also.

1 R. CLINE

2 A. It's an assumption that we plugged into the
3 model.

4 Q. Okay. And that's an assumption that you made,
5 correct?

6 A. I was responsible for that assumption.

7 Q. And the assumption that you use for the
8 wagering tax rate growth is different from the number
9 that the consensus report uses, correct?

10 A. It looks like certainly for FY 2016 they're at
11 a higher rate of growth.

12 Q. Okay. And do you recall what number you were
13 using?

14 A. At that point, it was either 0.5 or a plus 1
15 percent -- plus 0.5 or plus 1 percent.

16 Q. Okay. Can you tell me why you used 1 percent
17 rather than 1.2 percent or 1.3 percent?

18 A. Because we thought at the time that that was a
19 reasonable estimate given the arrival of the new
20 competition, which should have had an even more negative
21 effect on the revenue numbers and could in fact, by
22 itself, have driven this into a negative .5 percent.

23 Q. Okay. But there is --

24 A. But there is an economic recovery occurring
25 throughout Michigan, some signs of slightly more positive

1 R. CLINE

2 Q. Okay. And there are a number of inputs to
3 your model that are basically numbers that you picked,
4 correct?

5 A. They're assumptions that I was responsible
6 for.

7 Q. And you could use different assumptions in
8 your modeling, and they would be reasonable assumptions,
9 correct, because they're just numbers that you picked?

10 MR. STEWART: Objection.

11 THE WITNESS: Not all assumptions would be
12 reasonable.

13 BY MR. SMITH:

14 Q. Well, I mean, for any of the numbers that you
15 picked to use in your model, you could have different
16 numbers that would be reasonable, correct? Like, for
17 example, with the wagering tax rate growth, it would be
18 reasonable to use the City's number, right?

19 MR. STEWART: Objection.

20 THE WITNESS: I don't agree. We did not
21 use the City numbers in 2013.

22 BY MR. SMITH:

23 Q. Do you think it would be unreasonable to use
24 the numbers that the consensus forecast used for the
25 City?

<p style="text-align: right;">Page 173</p> <p>1 R. CLINE</p> <p>2 A. I believe it depends upon which tax type</p> <p>3 you're looking at and how long out they're going.</p> <p>4 Q. So, some of the numbers used in the consensus</p> <p>5 forecast in your view are unreasonable?</p> <p>6 A. Some of the numbers used in the consensus</p> <p>7 forecast are not the same as the assumptions that we</p> <p>8 made.</p> <p>9 Q. Yeah. And my question is whether some of the</p> <p>10 numbers in the consensus forecast are unreasonable to</p> <p>11 use.</p> <p>12 A. I don't have a definition for "unreasonable."</p> <p>13 I can simply tell you how we derived the number that we</p> <p>14 plugged in as our assumption. We did not plug in the</p> <p>15 consensus forecast number.</p> <p>16 Q. Okay. But you agree that your -- the numbers</p> <p>17 that you picked to plug into your model that are just</p> <p>18 based on your picking the numbers are numbers that you</p> <p>19 could substitute with other numbers that would also be</p> <p>20 reasonable, correct?</p> <p>21 MR. STEWART: Objection.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. Or are your numbers the only ones that could</p> <p>24 be used?</p> <p>25 MR. STEWART: Objection.</p>	<p style="text-align: right;">Page 175</p> <p>1 R. CLINE</p> <p>2 this is disk number two.</p> <p>3 (RECESS, 12:55- - 1:50 p.m.)</p> <p>4 THE VIDEOGRAPHER: On the record at 1:50.</p> <p>5 This is the beginning of disk number three in the</p> <p>6 deposition of Robert Cline.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. Good afternoon, Mr. Cline. How did you become</p> <p>9 involved in this case?</p> <p>10 A. I became involved in the case when the EY team</p> <p>11 approached my practice, the QUEST practice in Washington,</p> <p>12 D.C., to ask for assistance in estimating tax revenues</p> <p>13 for the City.</p> <p>14 Q. And the EY team in Detroit lacked the</p> <p>15 expertise to estimate taxes themselves; is that correct?</p> <p>16 A. I don't know if that was the case. I think we</p> <p>17 were recognized as having more extensive experience in</p> <p>18 doing that.</p> <p>19 Q. Is it fair to say that in performing your</p> <p>20 forecasting, you take data that's existing and then -- at</p> <p>21 the current point in time, and then you project that data</p> <p>22 into the future, essentially assuming that the status quo</p> <p>23 doesn't change?</p> <p>24 A. The forecast itself is a forecast of the key</p> <p>25 drivers in the future, all of which are changing. So,</p>
<p style="text-align: right;">Page 174</p> <p>1 R. CLINE</p> <p>2 THE WITNESS: I was responsible for</p> <p>3 determining what assumptions we put in our revenue</p> <p>4 forecasting model, and I did that.</p> <p>5 BY MR. SMITH:</p> <p>6 Q. Yeah. And my question is there could be</p> <p>7 another independent expert who picked different numbers</p> <p>8 to put into a revenue forecasting model for Detroit, and</p> <p>9 it could lead to perfectly reasonable results, correct?</p> <p>10 MR. STEWART: Objection.</p> <p>11 THE WITNESS: Would lead to different</p> <p>12 results, but they're not the ones that we chose.</p> <p>13 BY MR. SMITH:</p> <p>14 Q. I know. And I'm asking -- is your position</p> <p>15 that your forecast is the only reasonable forecast of</p> <p>16 revenues from the taxes you looked at for Detroit?</p> <p>17 A. That's not my position.</p> <p>18 Q. Okay. So --</p> <p>19 THE VIDEOGRAPHER: Counsel, I'm sorry.</p> <p>20 We're at about an hour. We have to switch.</p> <p>21 MR. SMITH: Okay. Why don't we break for</p> <p>22 lunch.</p> <p>23 MR. STEWART: Why don't we break for lunch.</p> <p>24 What time is it?</p> <p>25 THE VIDEOGRAPHER: Off the record at 12:55,</p>	<p style="text-align: right;">Page 176</p> <p>1 R. CLINE</p> <p>2 the forecast exercise itself is -- what stays the same is</p> <p>3 the legal parameters of the tax system. What changes</p> <p>4 over time is the economics. What is fixed is the</p> <p>5 starting point of actual tax collections.</p> <p>6 Q. So, in order to conduct an appropriate</p> <p>7 forecast, the policies and economics should change over</p> <p>8 time to accurately account for events as they unfold?</p> <p>9 A. That's not correct. The policies in the form</p> <p>10 of tax parameters under current law remain consistent --</p> <p>11 constant over the forecast period. It was the economics</p> <p>12 that changed.</p> <p>13 Q. Okay. Are there activities by the City that</p> <p>14 change over time, or do you assume that all activities by</p> <p>15 the City remain fixed and constant?</p> <p>16 A. What do you mean by "activities" of the City?</p> <p>17 Q. Well, one activity is collection -- you know,</p> <p>18 collection practices. You know, there are other</p> <p>19 activities that the City engages in that might affect</p> <p>20 revenue -- tax revenue, correct? Other than the legal</p> <p>21 framework, there are activities the City engages in that</p> <p>22 can impact tax revenue, correct?</p> <p>23 A. Are you talking specifically about collection</p> <p>24 activities?</p> <p>25 Q. Well, my question is broader. I'm just trying</p>

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<p style="text-align: right;">Page 177</p> <p>1 R. CLINE</p> <p>2 to give you an example so you get an idea of what I'm</p> <p>3 talking about. Why don't we take it one at a time, okay?</p> <p>4 A. Okay.</p> <p>5 Q. Collection activities certainly can impact tax</p> <p>6 revenues over time, correct?</p> <p>7 A. Correct.</p> <p>8 Q. There are other activities that the City can</p> <p>9 engage in that may impact tax revenues, correct?</p> <p>10 A. You will have to be more specific. What type</p> <p>11 of activities are you describing?</p> <p>12 Q. Well, if the City, for example, banned</p> <p>13 businesses from the City, that would certainly impact tax</p> <p>14 revenues, correct?</p> <p>15 A. The local economy will be affected by the</p> <p>16 provision of City services, by the overall economic</p> <p>17 outlook for the city, all of those are factors that</p> <p>18 affect -- will affect our economic forecast, if they</p> <p>19 affect the private sector economy.</p> <p>20 Q. Okay. So, there are many activities,</p> <p>21 including the activities by the City that can impact the</p> <p>22 economics that you use in forecasting into the future,</p> <p>23 correct?</p> <p>24 A. I think that's correct.</p> <p>25 Q. And what are some of those things that can</p>	<p style="text-align: right;">Page 179</p> <p>1 R. CLINE</p> <p>2 Detroit can't pay its creditors more, correct?</p> <p>3 A. I have no comment on that issue.</p> <p>4 Q. I'm going to hand you a copy of your report</p> <p>5 that I'll mark as Exhibit 4, just so you have it in front</p> <p>6 of you, okay?</p> <p>7 A. Okay.</p> <p>8 (Cline Exhibit 4 was marked for identification.)</p> <p>9 BY MR. SMITH:</p> <p>10 Q. You've got a copy of your report in front of</p> <p>11 you?</p> <p>12 A. Thank you. I do.</p> <p>13 Q. Okay. And I just wanted to get that to you so</p> <p>14 you would have it in case you need to refer to it, okay?</p> <p>15 A. Thank you.</p> <p>16 Q. Can you tell me what the assumptions of your</p> <p>17 forecasts are?</p> <p>18 A. For all tax types?</p> <p>19 Q. Why don't we go tax by tax. For the income</p> <p>20 tax, what are the assumptions that you make?</p> <p>21 A. It may be helpful just to reiterate what is in</p> <p>22 the report in terms of our approach. Total individual</p> <p>23 income tax revenues mathematically equal number of</p> <p>24 taxpayers times average taxable income times the tax</p> <p>25 rate.</p>
<p style="text-align: right;">Page 178</p> <p>1 R. CLINE</p> <p>2 impact the economics?</p> <p>3 A. I believe I may have just mentioned a few of</p> <p>4 those examples. Anything that affects land use, that</p> <p>5 affects general perception of the viability of the</p> <p>6 private sector in Detroit. Anything that affects the</p> <p>7 private sector economy would in theory have an influence</p> <p>8 on our tax forecast for the City.</p> <p>9 Q. Okay. Did you look at historical data</p> <p>10 regarding utility users' tax collections?</p> <p>11 A. We were aware of the most recent data on</p> <p>12 actual collections in the City of Detroit.</p> <p>13 Q. Has the City successfully increased utility</p> <p>14 user tax collections in recent years?</p> <p>15 A. I believe in the last few years, just prior to</p> <p>16 our forecast period, we were seeing decreases in utility</p> <p>17 tax collections.</p> <p>18 Q. You're not offering an opinion on the causes</p> <p>19 of Detroit's fiscal problems, correct?</p> <p>20 A. I'm not.</p> <p>21 Q. You're not offering an opinion that Detroit</p> <p>22 can increase taxes, correct?</p> <p>23 A. I am not offering an opinion about tax policy</p> <p>24 changes in the City of Detroit.</p> <p>25 Q. And you're not offering an opinion that</p>	<p style="text-align: right;">Page 180</p> <p>1 R. CLINE</p> <p>2 And our estimating methodology was to look at</p> <p>3 each three of those components separately. Because</p> <p>4 Detroit has differential tax rates depending upon whether</p> <p>5 you are a resident or a non-resident, we actually</p> <p>6 estimate individual income tax bases and taxpayers for</p> <p>7 those who are residents of Detroit and work in Detroit,</p> <p>8 residents of Detroit who work outside of the city, and</p> <p>9 non-residents who work in the city.</p> <p>10 Then we made assumptions about total</p> <p>11 employment in Detroit, the growth rate of employment in</p> <p>12 the suburbs, population growth in the city, general</p> <p>13 increases in the average taxable base. Those were, on</p> <p>14 the individual income tax side, some of our key</p> <p>15 assumptions.</p> <p>16 Q. Okay. And then for the corporate tax, what</p> <p>17 are the key assumptions?</p> <p>18 A. I believe our corporate income tax forecast is</p> <p>19 more -- was -- began with the State forecast for the</p> <p>20 years that were available. The State information is more</p> <p>21 limited because the State of Michigan did not have a</p> <p>22 corporate income tax prior to two or three years ago.</p> <p>23 They returned to that tax, so there's too short a time</p> <p>24 series to use the State experience as a foundation for</p> <p>25 the Detroit forecast.</p>

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<p style="text-align: right;">Page 181</p> <p>1 R. CLINE</p> <p>2 So, we used recent experience in Detroit and</p> <p>3 we used for the longer run forecast information about the</p> <p>4 expected overall growth of the U.S. economy, because of</p> <p>5 the limitation on data from the State of Michigan, not</p> <p>6 having a time series for the corporate income tax.</p> <p>7 Q. Okay. So, what are the assumptions for the</p> <p>8 corporate income tax?</p> <p>9 A. All right.</p> <p>10 All right. As we outlined in the report, I'm</p> <p>11 looking for the specific percentage changes. Let's see</p> <p>12 where that -- where they are. What we did on the</p> <p>13 corporate income tax is that we began with the State</p> <p>14 forecast three-year, I believe, period, and we took the</p> <p>15 percentage growth for the corporate income tax forecast</p> <p>16 from the State. If I recall, that may have been running</p> <p>17 at 3 or 3.5 percent.</p> <p>18 Then we recognized that the corporate income</p> <p>19 taxes in Detroit were growing at a lower, slower rate of</p> <p>20 growth than for the State, and that had been going on for</p> <p>21 some time. We called that our structural adjustment, and</p> <p>22 we subtracted that from the State forecast to get our</p> <p>23 forecast for the City of Detroit.</p> <p>24 And that adjustment was about a negative 3</p> <p>25 percent, tapering down to a negative 2 percent. And that</p>	<p style="text-align: right;">Page 183</p> <p>1 R. CLINE</p> <p>2 corporate income tax; is that correct?</p> <p>3 A. It's based upon information on actual tax</p> <p>4 collections as the starting point, and assumed rate of</p> <p>5 increases in the tax base in the City of Detroit.</p> <p>6 Q. How about the wagering tax; what are the key</p> <p>7 assumptions there?</p> <p>8 A. As I believe I did discuss earlier, the</p> <p>9 wagering tax recently had very negative percentage</p> <p>10 changes from year to year. That was a result of</p> <p>11 increased competition from Ohio, and a result of the deep</p> <p>12 recession in Detroit as well as the rest of Michigan.</p> <p>13 In our forecast, we had to decide when that</p> <p>14 negative impact would start to reverse and perhaps lead</p> <p>15 to a small, positive growth in wagering taxes. Based</p> <p>16 upon what we were seeing around the U.S., we returned the</p> <p>17 rate of growth to the positive area, .5 percent, and then</p> <p>18 in a few years, we moved it back up -- we pushed it up to</p> <p>19 a 1 percent annual rate of growth, which I think is a</p> <p>20 reasonable expectation for what will happen, because the</p> <p>21 competition hasn't gone away. In fact, it probably will</p> <p>22 increase. Although the economy is recovering, we think</p> <p>23 the net effect is about a 0.5 to 1 percent increase in</p> <p>24 the wagering tax.</p> <p>25 Q. And all of those were assumptions of your</p>
<p style="text-align: right;">Page 182</p> <p>1 R. CLINE</p> <p>2 gave us our growth rates for the corporate income tax,</p> <p>3 and then we extrapolated that into the future, over the</p> <p>4 10-year period of time.</p> <p>5 Q. Okay. So, can you list for me the key</p> <p>6 assumptions for your corporate tax forecast?</p> <p>7 A. Our corporate tax forecast was based upon</p> <p>8 recent experience in the rate of growth of the State</p> <p>9 corporate income tax collections, adjusted downward from</p> <p>10 recent history of the slower rate of growth in Detroit</p> <p>11 than in the State. We applied that going forward outside</p> <p>12 of the Michigan forecast at a rate that may have been</p> <p>13 roughly -- I don't see it in front of me here, but it may</p> <p>14 have been close to a 2 percent rate of growth.</p> <p>15 Q. And all of those are assumptions of your</p> <p>16 corporate income tax calculation?</p> <p>17 A. In a sense, the entire model is an assumption.</p> <p>18 All of these are inputs like the rate of growth of the</p> <p>19 State corporate income tax, the relationship between the</p> <p>20 Detroit tax and the State base; all of those were based</p> <p>21 upon information in the recent past or a snapshot at a</p> <p>22 point in time, and we did use those parameters and ratios</p> <p>23 in forming our future forecast for the City of Detroit.</p> <p>24 Q. But all the -- the future forecast is based on</p> <p>25 a series of assumptions that you made regarding the</p>	<p style="text-align: right;">Page 184</p> <p>1 R. CLINE</p> <p>2 wagering tax forecast, correct?</p> <p>3 A. Again, they're all inputs in the wagering tax</p> <p>4 forecast.</p> <p>5 Q. I know. My question is, I just want a list of</p> <p>6 the assumptions for the wagering tax forecast.</p> <p>7 A. Yes. Those -- that -- I've explained where</p> <p>8 the rate of growth assumptions came from.</p> <p>9 Q. Okay. So that you're assuming the rate of</p> <p>10 growth for purposes of your wagering tax calculation,</p> <p>11 correct?</p> <p>12 A. We're forecasting the rate of growth in</p> <p>13 wagering tax collections based upon the numbers that we</p> <p>14 put into the model.</p> <p>15 Q. Okay. And are those assumptions?</p> <p>16 A. I'm not sure how you distinguish between</p> <p>17 assumptions --</p> <p>18 Q. Okay. Well, in your report, don't you list</p> <p>19 assumptions?</p> <p>20 A. We do have a section that says assumptions.</p> <p>21 Q. Okay. And can you give me a straightforward</p> <p>22 answer about what the assumptions are?</p> <p>23 MR. STEWART: Hold on. Objection.</p> <p>24 THE WITNESS: What page would that be on?</p> <p>25 MR. STEWART: He will tell you what page</p>

<p style="text-align: right;">Page 189</p> <p>1 R. CLINE</p> <p>2 addressed that would also be reasonable projections?</p> <p>3 A. There are other projections that you could</p> <p>4 make if you changed the assumptions. I would have to see</p> <p>5 the rationale for the assumptions to kind of judge</p> <p>6 reasonableness in that sense.</p> <p>7 Q. Okay. But there's some that could be</p> <p>8 reasonable?</p> <p>9 A. It would depend upon what those assumptions</p> <p>10 are.</p> <p>11 Q. Okay. So, basically, the reasonableness --</p> <p>12 basically, your determination about the reasonableness of</p> <p>13 a projection is based upon the reasonableness of the</p> <p>14 assumptions?</p> <p>15 A. I believe that is fundamentally the foundation</p> <p>16 for doing tax forecasting.</p> <p>17 Q. Okay. And so, in doing your work in tax</p> <p>18 forecasting, you tried to use your discretion to pick</p> <p>19 reasonable assumptions so that you could come up with</p> <p>20 reasonable projections; is that correct?</p> <p>21 A. The way I would describe it is that we had to</p> <p>22 make those assumptions. There was no choice. It wasn't</p> <p>23 discretionary. We wouldn't have been able to do the</p> <p>24 forecast without making those key assumptions. We made</p> <p>25 those key assumptions based upon the best available</p>	<p style="text-align: right;">Page 191</p> <p>1 R. CLINE</p> <p>2 Q. You don't have any experience doing revenue</p> <p>3 forecasting for a City, correct?</p> <p>4 A. I do not.</p> <p>5 Q. And you don't have any experience doing</p> <p>6 economic forecasting for Detroit, correct?</p> <p>7 A. Not prior to this study.</p> <p>8 Q. Are there any economic forecasts for Detroit?</p> <p>9 A. In the past, I have used forecasts for the</p> <p>10 City of Detroit. When we started looking at this in</p> <p>11 2013, we could not find updated forecasts for the City of</p> <p>12 Detroit.</p> <p>13 Q. Okay. So, there are no updated forecasts for</p> <p>14 the City of Detroit that would -- that could be used in</p> <p>15 doing a forecast such as you're doing here, correct?</p> <p>16 A. There may be, but we did not find them or use</p> <p>17 them in our analysis.</p> <p>18 Q. Okay. So, because you didn't have Detroit</p> <p>19 data, you had to use Michigan data; is that correct?</p> <p>20 A. I think the correct answer is we had a lot of</p> <p>21 Detroit data. We have all there is to know about tax</p> <p>22 collections in the City of Detroit we had very detailed</p> <p>23 information on the flow of commuters across the border in</p> <p>24 Detroit. We had detailed information on the labor market</p> <p>25 conditions in the City of Detroit.</p>
<p style="text-align: right;">Page 190</p> <p>1 R. CLINE</p> <p>2 information we had and our perspective on future economic</p> <p>3 developments in Detroit.</p> <p>4 We think they are reasonable given what I just</p> <p>5 described as inputs. Other people may have different</p> <p>6 assumptions and come up with different forecasts.</p> <p>7 Q. Yeah. There was no requirement that you use</p> <p>8 the precise numbers that you picked for your assumptions,</p> <p>9 correct?</p> <p>10 A. We controlled the assumptions that we used in</p> <p>11 the forecasting model.</p> <p>12 Q. Okay. And in picking the precise numbers for</p> <p>13 your assumptions, you used your discretion as a tax</p> <p>14 forecaster to pick assumptions you believe were</p> <p>15 reasonable, correct?</p> <p>16 A. I wouldn't use the word "discretion," no.</p> <p>17 Q. Okay. What would you -- you used your -- what</p> <p>18 did you do to pick the assumptions; how would you</p> <p>19 characterize your exercise of your function?</p> <p>20 A. I would characterize it as developing a set of</p> <p>21 assumptions based upon our experience in revenue</p> <p>22 forecasting, and based upon our understanding of the</p> <p>23 current status of the City of Detroit from an economic</p> <p>24 perspective. We use that information to guide the</p> <p>25 selection of the forecasting assumptions.</p>	<p style="text-align: right;">Page 192</p> <p>1 R. CLINE</p> <p>2 What we did not have was an economic forecast</p> <p>3 of the future in Detroit.</p> <p>4 Q. Okay. So, because you didn't have an economic</p> <p>5 forecast for the future for Detroit, you had to look at</p> <p>6 information for the State of Michigan; is that correct?</p> <p>7 A. We did use as a starting point, in addition to</p> <p>8 the data that we had for the City of Detroit, we used the</p> <p>9 most recent consensus forecasts for the state economy,</p> <p>10 and then related that to the City of Detroit.</p> <p>11 Q. So, is part of what you are doing in your</p> <p>12 forecast extrapolating statewide data for Michigan and</p> <p>13 trying to use it to do some forecasting for Detroit?</p> <p>14 A. That was one of the steps in the process.</p> <p>15 Q. Okay. And who are the people that had done</p> <p>16 the prior Detroit forecasts that were not updated, if you</p> <p>17 can recall, or what were they?</p> <p>18 A. I believe in the past, I had used economic</p> <p>19 forecasts for the City of Detroit from one of the banks</p> <p>20 in the City of Detroit. I believe they stopped doing</p> <p>21 that revenue forecast -- systematic revenue forecast.</p> <p>22 Q. Do you recall which bank it was?</p> <p>23 A. I don't recall which bank it was.</p> <p>24 Q. When you say in the past you had used a</p> <p>25 revenue forecast for Detroit by one of these banks, what</p>

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<p style="text-align: right;">Page 205</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Objection.</p> <p>3 THE WITNESS: As I mentioned, our tax</p> <p>4 revenue forecast for the individual income tax</p> <p>5 begins with the actual tax collections. I think it</p> <p>6 was 2013 preliminary. We didn't have to use</p> <p>7 history or pick a time period for the actual</p> <p>8 starting point of our revenue estimate. What we</p> <p>9 had to choose was expected rates of growth in the</p> <p>10 future over the next 10 years. To provide us with</p> <p>11 information to choose those growth rates going</p> <p>12 forward, we looked back in time at history to the</p> <p>13 extent that it helped us.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. Okay. But like, for example, look at Figure 1</p> <p>16 compared to Figure 2. You look at different time periods</p> <p>17 for the growth rates of the City of Detroit and Michigan</p> <p>18 employment compared to the Detroit share of total state</p> <p>19 of Michigan employment, correct?</p> <p>20 A. That's correct, because the time period was</p> <p>21 determined by the question we were trying to answer.</p> <p>22 Q. Okay. So, for the various inputs in your</p> <p>23 model, you look at different time periods; is that fair?</p> <p>24 A. We chose time periods that we thought were</p> <p>25 most relevant for the parameter or the question we were</p>	<p style="text-align: right;">Page 207</p> <p>1 R. CLINE</p> <p>2 Q. Okay. And as an expert in this case, are you</p> <p>3 able to explain why the share of Detroit -- Detroit's</p> <p>4 share of total state of Michigan employment went up or</p> <p>5 down in particular years?</p> <p>6 A. No. I did not do a detailed examination of</p> <p>7 the percentage change in each year. The exercise was to</p> <p>8 determine the long run trend over, say, a 20-year period</p> <p>9 of time. Focus was not on individual year fluctuations;</p> <p>10 it was attempting to measure a long run structural change</p> <p>11 that we believe still applies to the City of Detroit.</p> <p>12 Q. Okay. Why would Detroit's share of total</p> <p>13 state of Michigan employment increase during certain</p> <p>14 portions of time that you looked at?</p> <p>15 A. They may have -- it may have happened because</p> <p>16 some of the economic activities in Detroit were growing</p> <p>17 faster than they were -- than other activities were</p> <p>18 throughout the state.</p> <p>19 Q. You haven't done any analysis to figure out</p> <p>20 what activities there were during those historical</p> <p>21 periods when Detroit was successfully growing its share</p> <p>22 of employment compared to the state, correct?</p> <p>23 A. No, we did not.</p> <p>24 Q. On page seven, you say, "A comparison of more</p> <p>25 recent changes in employment in Detroit and Michigan</p>
<p style="text-align: right;">Page 206</p> <p>1 R. CLINE</p> <p>2 trying to answer.</p> <p>3 Q. Okay. And so, there are a number of</p> <p>4 parameters in your model that -- on which you base your</p> <p>5 assumptions or calculations upon different time periods;</p> <p>6 is that fair?</p> <p>7 A. I would say that is correct, and you see here</p> <p>8 two of the types of information that we use in</p> <p>9 determining our key assumptions.</p> <p>10 Q. Okay. On that chart at Figure 1, would it be</p> <p>11 fair to say that at various points in time, the City of</p> <p>12 Detroit's share of total state of Michigan employment is</p> <p>13 higher than you've assumed in your forecast?</p> <p>14 A. It is true in 1990, the share was 8.66</p> <p>15 percent. In 2012, it's 6.97 percent.</p> <p>16 Q. Okay. And in between those two periods of</p> <p>17 time, it went up and down, correct?</p> <p>18 A. Trend is pretty clearly down.</p> <p>19 Q. But there are periods of time that it was</p> <p>20 trending upward, correct?</p> <p>21 A. Given what I see in the diagram, I'd have to</p> <p>22 go to the underlying percentage changes. I see maybe one</p> <p>23 or two years where they may have been positive, but I'd</p> <p>24 have to look at the specific numbers to determine what</p> <p>25 was positive and what was negative.</p>	<p style="text-align: right;">Page 208</p> <p>1 R. CLINE</p> <p>2 indicates that Detroit employment has not recovered at</p> <p>3 the same rate as Michigan employment coming out of the</p> <p>4 last two recessions."</p> <p>5 Do you see that?</p> <p>6 A. I do.</p> <p>7 Q. Did you calculate any relationship regarding</p> <p>8 the rate of recovery in Detroit versus Michigan.</p> <p>9 A. We did, and the results are in Figure 2.</p> <p>10 Q. I mean, did you calculate it or did you -- you</p> <p>11 didn't calculate some number, did you, or did you</p> <p>12 calculate a number? Or did you do an assumption? I'm</p> <p>13 trying to figure out if it's a calculated value versus an</p> <p>14 assumed value.</p> <p>15 A. All of the values in Figure 2 were calculated</p> <p>16 from actual data.</p> <p>17 Q. And you would agree with me that there's no</p> <p>18 data or study showing a reinvestment and restructuring</p> <p>19 initiative like the City is proposing impacts the rate of</p> <p>20 recovery as you've be assumed in your model; correct?</p> <p>21 A. I don't know if there are or are not other</p> <p>22 studies. We did not use or look for those studies in our</p> <p>23 analysis.</p> <p>24 Q. Okay. And so, sitting here today, you can't</p> <p>25 identify any studies showing a reinvestment and</p>

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<p style="text-align: right;">Page 209</p> <p>1 R. CLINE</p> <p>2 restructuring initiative like Detroit's proposing will</p> <p>3 impact the rate of recovery, correct?</p> <p>4 A. I don't have a specific study.</p> <p>5 Q. Okay. Can you tell me what mathematical</p> <p>6 formula was used to calculate the values in Figure 2?</p> <p>7 A. The formula was X divided by Y.</p> <p>8 Q. What is X --</p> <p>9 A. It's the percentage change from year to year.</p> <p>10 Q. How did you calculate the reduction in the</p> <p>11 rate of lag under the restructuring scenario? Was that a</p> <p>12 calculation, or was that an assumption?</p> <p>13 A. I'm not sure what you mean by the lag.</p> <p>14 Q. Okay. You say that there's a delay in</p> <p>15 recovery in Detroit that you are depicting in Figure 2,</p> <p>16 correct?</p> <p>17 A. I believe the accurate description in Figure 2</p> <p>18 is that the recovery in Detroit coming out of the trough</p> <p>19 of the recession was slower than it was in the state.</p> <p>20 Q. Okay. Did you -- you say that there were</p> <p>21 other prior recessions. Did you do any testing or</p> <p>22 analysis to determine whether the rate of recovery in</p> <p>23 Detroit was slower in recessions before 2001?</p> <p>24 A. It was my knowledge of Michigan and Detroit</p> <p>25 suggested that they tended to move fairly close together</p>	<p style="text-align: right;">Page 211</p> <p>1 R. CLINE</p> <p>2 state of Michigan are?</p> <p>3 A. I don't have a detailed explanation of this</p> <p>4 break. It certainly has something to do with the overall</p> <p>5 structure of the Detroit economy as well as the effects</p> <p>6 of the fiscal crisis in Detroit.</p> <p>7 Q. There's no study or analysis that would</p> <p>8 explain or support your theory that there's a more</p> <p>9 delayed recovery in Detroit than in the state of Michigan</p> <p>10 for structural reasons, correct?</p> <p>11 A. I think Figure 2 provides a pretty solid</p> <p>12 foundation for reaching that conclusion.</p> <p>13 Q. But there's no study that says there's any</p> <p>14 causal relationship between anything in Detroit and a</p> <p>15 delay in recovery compared to the rest of the state?</p> <p>16 A. I don't know of any specific studies.</p> <p>17 Q. And the only person that's claiming that</p> <p>18 there's anything -- any kind of structural difference</p> <p>19 that's leading to a delay in recovery in Detroit compared</p> <p>20 to the state of Michigan is you, correct?</p> <p>21 A. I don't know that's the case, no.</p> <p>22 Q. Can you identify anybody else other than</p> <p>23 yourself --</p> <p>24 A. I have not.</p> <p>25 Q. -- that's saying that there's some kind of a</p>
<p style="text-align: right;">Page 210</p> <p>1 R. CLINE</p> <p>2 in prior recessions, both going down and coming out. I</p> <p>3 did not go back and look at the last 30 years or 40 years</p> <p>4 of recessions in Michigan. I didn't think it was</p> <p>5 relevant for this exercise. I do think this recent break</p> <p>6 is an important one because it does reflect the fact that</p> <p>7 there is now, I believe, a significant difference in the</p> <p>8 ability of the City of Detroit to recover versus the</p> <p>9 State of Michigan. I believe Figure 2 is a pretty clear</p> <p>10 indication of that.</p> <p>11 Q. That's based on data from one recession,</p> <p>12 correct?</p> <p>13 A. That's based upon data from two recessions.</p> <p>14 Q. Okay. There are other recessions where you</p> <p>15 would agree with me that Detroit has recovered at a</p> <p>16 comparable rate to Michigan; is that correct?</p> <p>17 A. It would be my impression that there was a</p> <p>18 closer correlation between changes in Detroit and changes</p> <p>19 in Michigan in earlier recessions.</p> <p>20 Q. You haven't calculated those numbers, though,</p> <p>21 correct?</p> <p>22 A. I have not. I didn't think they were relevant</p> <p>23 for this forecast exercise.</p> <p>24 Q. Okay. Do you know what the causes in the rate</p> <p>25 of recovery that you say exist between Detroit and the</p>	<p style="text-align: right;">Page 212</p> <p>1 R. CLINE</p> <p>2 structural reason for delay in recovery between Detroit</p> <p>3 and Michigan?</p> <p>4 A. I have not, but I wouldn't conclude that means</p> <p>5 it's not out there.</p> <p>6 Q. Okay. But sitting here today, you can't</p> <p>7 identify anybody other than yourself that's voiced that</p> <p>8 opinion, correct?</p> <p>9 A. I do not have a specific study that you could</p> <p>10 refer to as a source that would go beyond the</p> <p>11 documentation of what has actually been happening. It's</p> <p>12 not a theory. It's, I believe, reality, and I think</p> <p>13 Figure 2 is pretty clear.</p> <p>14 Q. But you can't -- you can't identify the</p> <p>15 specific cause of this delay in recovery for -- that you</p> <p>16 outline in your report between Detroit and the rest of</p> <p>17 the state of Michigan, correct?</p> <p>18 A. What we are attempting to do was to identify</p> <p>19 the break, not to explain the break. The question for us</p> <p>20 was will it continue in the future, and we determine</p> <p>21 that, yes, for our economic forecast, we think that this</p> <p>22 is another break that needs to be considered when you are</p> <p>23 doing a 10-year revenue forecast for Detroit.</p> <p>24 Q. But you haven't identified the cause of a</p> <p>25 break between Detroit and the rest of the state, correct?</p>

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<p style="text-align: right;">Page 213</p> <p>1 R. CLINE</p> <p>2 A. We have not tried to analyze the Detroit</p> <p>3 economy in detail compared to the Michigan economy in</p> <p>4 detail.</p> <p>5 Q. So, you can't tell me whether this</p> <p>6 unidentified cause will continue into the future or not</p> <p>7 with respect to the break between Detroit and the state</p> <p>8 of Michigan, right?</p> <p>9 A. I can tell you we have two very significant</p> <p>10 observations of the existence of the break. I believe</p> <p>11 the 10-year horizon covered in this diagram is a fairly</p> <p>12 solid foundation to assume that something fundamentally</p> <p>13 has changed, and I believe that's a solid foundation for</p> <p>14 the revenue forecast for a 10-year period.</p> <p>15 Q. So, you're assuming in your forecast that the</p> <p>16 break between Detroit and Michigan with respect to the</p> <p>17 rate of recovery will continue, correct?</p> <p>18 A. In our forecast, we have this structural break</p> <p>19 continuing, but I believe we taper it down near the end</p> <p>20 of the forecast period.</p> <p>21 Q. Okay. And that's an assumption you're making</p> <p>22 for your forecast, right?</p> <p>23 A. It is an assumption.</p> <p>24 Q. And -- but you haven't identified the actual</p> <p>25 cause to figure out whether the cause is going to</p>	<p style="text-align: right;">Page 215</p> <p>1 R. CLINE</p> <p>2 lines, you've got a rough estimate of what that</p> <p>3 differential looks like. We used the relationship,</p> <p>4 actual relationships between these two lines to try to</p> <p>5 come up with an estimate of what that gap looks like.</p> <p>6 Q. What's the mathematical formula or technique</p> <p>7 to get that estimate?</p> <p>8 A. It's Y minus X. You look at two percentage</p> <p>9 changes, look at the difference in those two.</p> <p>10 Q. But did you do that throughout the period or</p> <p>11 at one point in time or what?</p> <p>12 A. I believe at that -- for that calculation, we</p> <p>13 were focusing on this time period covered between 2001</p> <p>14 and 2012.</p> <p>15 Q. But I'm still trying to get what the</p> <p>16 mathematical calculation was. Obviously, throughout that</p> <p>17 period there were differences in the degree to which</p> <p>18 there was a delay in recovery, right?</p> <p>19 A. Correct.</p> <p>20 Q. Okay. And so, I'm trying to figure out how</p> <p>21 you calculated a single number based on data underlying</p> <p>22 Figure 2 for the delay in recovery.</p> <p>23 A. I'll have to check the exact mathematics, but</p> <p>24 I believe what you can see is that we looked at the two</p> <p>25 periods of time from an expansion, from a recession. We</p>
<p style="text-align: right;">Page 214</p> <p>1 R. CLINE</p> <p>2 continue during the 10-year period, correct?</p> <p>3 A. We have not done a detailed study of the</p> <p>4 cause.</p> <p>5 Q. And in fact, nobody has done any detailed</p> <p>6 study of any cause of this alleged break between Detroit</p> <p>7 and the state of Michigan in terms of rate of recovery,</p> <p>8 correct?</p> <p>9 MR. STEWART: Objection.</p> <p>10 THE WITNESS: I don't know if that's</p> <p>11 correct.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. You can't identify any study like that sitting</p> <p>14 here today, correct?</p> <p>15 A. I haven't identified any study.</p> <p>16 Q. Okay. When we look at page -- based on the</p> <p>17 data that you're talking about in Figure 2, do you</p> <p>18 calculate a -- some kind of value that you use to project</p> <p>19 the delay in the rate of recovery?</p> <p>20 A. Correct.</p> <p>21 Q. And how -- what's the mathematical formula you</p> <p>22 used to calculate that value?</p> <p>23 A. It's partly based on the numbers you see lying</p> <p>24 behind the graph in Figure 2. You can tell that the --</p> <p>25 if you look at the vertical difference between those two</p>	<p style="text-align: right;">Page 216</p> <p>1 R. CLINE</p> <p>2 may have averaged those gaps during the expansionary</p> <p>3 periods.</p> <p>4 Q. Okay. But right now, you don't know the exact</p> <p>5 mathematical --</p> <p>6 A. I'll have to --</p> <p>7 Q. -- technique used to calculate the delay in</p> <p>8 recovery, correct?</p> <p>9 A. I know the exact mathematics used to calculate</p> <p>10 it. I don't remember precisely which years went into</p> <p>11 that averaging.</p> <p>12 Q. Okay. Is it possible that not all the years</p> <p>13 depicted in Figure 2 went into that calculation?</p> <p>14 A. As I mentioned, I believe we were focusing on</p> <p>15 the recovery periods, not the recession. You notice that</p> <p>16 in the recession, '8, '9, they moved closely together.</p> <p>17 The break is in the expansion, the recovery from</p> <p>18 recession, not in going down into the recession.</p> <p>19 Q. Okay. So, you don't know which recovering</p> <p>20 years you used in generating the value for the delay in</p> <p>21 rate of recovery, correct?</p> <p>22 A. I'm pretty certain we used the recovery years.</p> <p>23 Q. But you don't know which years those are?</p> <p>24 A. I believe they were the years that you see</p> <p>25 here in the graph.</p>

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<p style="text-align: right;">Page 225</p> <p>1 R. CLINE</p> <p>2 point to any previous instance where the State engaged in</p> <p>3 restructuring or reinvestment, correct?</p> <p>4 A. For the City of Detroit?</p> <p>5 Q. Yeah.</p> <p>6 A. I am not aware of any, and that's why there's</p> <p>7 no study we can rely upon to determine the factors.</p> <p>8 Q. Precisely. There's no study or data that</p> <p>9 shows that the cyclical adjustment that you assume is</p> <p>10 going to go away in the restructuring scenario actually</p> <p>11 will go away, correct?</p> <p>12 A. I believe it is a reasonable -- thinking about</p> <p>13 what's unfolding in Detroit, I believe that that cyclical</p> <p>14 adjustment we saw in Figure 2 is related to the economic</p> <p>15 weaknesses and the fiscal crisis in Detroit. I believe</p> <p>16 it is reasonable to assume that if those issues are</p> <p>17 addressed, that the private sector could respond in a</p> <p>18 strong -- with a stronger rates of growth. I think it is</p> <p>19 a reasonable scenario over the next 10 years with</p> <p>20 restructuring.</p> <p>21 Q. Okay. I'm asking about studies or data.</p> <p>22 There's no studies or data showing that the cyclical</p> <p>23 adjustments related to the fiscal crisis in Detroit,</p> <p>24 correct?</p> <p>25 A. This is a unique situation that isn't in</p>	<p style="text-align: right;">Page 227</p> <p>1 R. CLINE</p> <p>2 remember, in terms of our methodology, we had to look at</p> <p>3 residents who work in the City of Detroit, residents who</p> <p>4 work outside of the City of Detroit, and people who live</p> <p>5 in the suburbs and work in Detroit. Those are all</p> <p>6 subsets or not, in one case, even in the population</p> <p>7 numbers for Detroit.</p> <p>8 So that we had to do separate percentage</p> <p>9 change estimates for those three components of the</p> <p>10 taxpayer groups in Detroit.</p> <p>11 Q. Can you tell me what the add factors were that</p> <p>12 you used?</p> <p>13 A. Well, I believe you see on page nine we have</p> <p>14 got forecast the number of residents employed in Detroit</p> <p>15 will decline at 1 percent a year, less negative 20 to 21,</p> <p>16 and then 0 percent in the last two years.</p> <p>17 Q. Okay. And --</p> <p>18 A. So -- yes.</p> <p>19 Q. Go ahead.</p> <p>20 A. No, I was just -- those are the numbers that</p> <p>21 would describe our growth in the number of the taxpayer</p> <p>22 population for residents working in the city.</p> <p>23 Q. Those growth rates referenced on page nine,</p> <p>24 are those assumed values or were they generated by</p> <p>25 mathematical formula?</p>
<p style="text-align: right;">Page 226</p> <p>1 R. CLINE</p> <p>2 history, so there are no studies that would answer your</p> <p>3 question.</p> <p>4 Q. And so, there's no study or data showing that</p> <p>5 engaging in restructuring or reinvestment to alleviate</p> <p>6 the fiscal crisis will eliminate the fiscal adjustment,</p> <p>7 correct?</p> <p>8 A. You're correct that I do not know of any study</p> <p>9 that deals specifically with that issue.</p> <p>10 Q. Okay. Page eight, population growth rate.</p> <p>11 You've got -- can you tell me what</p> <p>12 mathematical formula was used to calculate the population</p> <p>13 growth rate referenced on page eight?</p> <p>14 A. I cannot tell you what methodology SEMCOG used</p> <p>15 for its population projections.</p> <p>16 Q. Okay. Did you do any alteration of SEMCOG's</p> <p>17 population projections?</p> <p>18 A. We did in forecasting the individual income</p> <p>19 tax collections.</p> <p>20 Q. Okay. Can you tell me the mathematical</p> <p>21 formula you used to adjust or change SEMCOG's population</p> <p>22 projections?</p> <p>23 A. We used add factors, which could be plus or</p> <p>24 minus percentage changes, for different components of the</p> <p>25 population, which were not forecasted by SEMCOG. As you</p>	<p style="text-align: right;">Page 228</p> <p>1 R. CLINE</p> <p>2 A. They were our assumptions that went into the</p> <p>3 model.</p> <p>4 Q. Okay. So, the negative 1 percent decline per</p> <p>5 year and then the growth rate increase of minus .5</p> <p>6 percent from 2020 to 2021 and 0 percent in the last two</p> <p>7 forecast years, those were all assumed and not calculated</p> <p>8 values, correct?</p> <p>9 A. They are assumptions that we used in the</p> <p>10 estimates.</p> <p>11 Q. Did you look at different assumptions for</p> <p>12 those numbers?</p> <p>13 A. I believe we may have iterated to the final</p> <p>14 numbers, but I don't have specific runs of all the</p> <p>15 variations that we might have used along the way.</p> <p>16 Q. Would it be fair to say for all of the assumed</p> <p>17 values you used, you tested out different assumed values?</p> <p>18 A. I don't think it's accurate to say we tested</p> <p>19 out. I think it's accurate to say that we -- based upon</p> <p>20 additional information we received, we made adjustments</p> <p>21 in these assumptions that we thought align more closely</p> <p>22 with the most recent information available.</p> <p>23 Q. Okay. So, for all of the assumed values that</p> <p>24 form the basis for your forecast, you had used other</p> <p>25 assumed values at different points in time; is that fair?</p>

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2 **A. I don't think that's accurate for all of the**
3 **key assumptions, but there may have been some --**

4 Q. Okay.

5 **A. -- key assumptions that changed over time.**

6 Q. Okay. For some of the key assumptions that
7 underlie your forecast, you did use different numbers at
8 different points in time when you were generating your
9 forecast, correct?

10 **A. I would say that is correct, and as I had**
11 **mentioned before, we certainly changed the starting point**
12 **for each of our revenue forecasts as we updated the**
13 **actuals to reflect the most recent information. That**
14 **changed continuously throughout this entire period.**

15 Q. In terms of the recovery rate, did you --
16 either under the baseline or restructuring scenario, did
17 you use other recovery rates other than the minus .85 and
18 minus .5 percent?

19 **A. I don't remember specifically. I do remember,**
20 **though, that at one point, we may have talked about**
21 **whether to round the number off to one decimal place**
22 **instead of using two, but I don't remember specific runs**
23 **with different values.**

24 Q. Were there other methodologies you considered
25 for trying to generate the restructuring scenario other

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2 than using this recovery rate methodology?

3 **A. Well, I wouldn't say that what we did was only**
4 **using that recovery rate methodology. That only came**
5 **into play in getting the total -- the total job number**
6 **for the City of Detroit, and that was just the beginning**
7 **point. And then we had to divide the total jobs into**
8 **those held by residents, those held by non-residents, and**
9 **then we had to determine the number of jobs residents**
10 **held in the suburbs. All of those involved key**
11 **assumptions about the rates of growth of those**
12 **components.**

13 Q. Were there any analyses, though, where you
14 didn't use the cyclical adjustment in your calculations?

15 **A. I believe it was used in the calculation of**
16 **the total employment rate -- the total job number for the**
17 **City of Detroit I can certainly check to see if it was**
18 **used somewhere else.**

19 Q. Well, no, I'm wondering if there was a point
20 in time where you didn't try to do this calculation with
21 the cyclical adjustment rate.

22 **A. I believe I did mention that, as you see in**
23 **the report, that we went -- when we went to the**
24 **restructuring scenario, we removed the cyclical --**
25 **additional cyclical adjustment. So, yes, we did run a**

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2 **scenario without that, and we -- it is described and**
3 **included in the restructuring scenario.**

4 Q. Did you ever run the restructuring scenario
5 without removing the cyclical adjustment?

6 **A. I don't -- let me see if I can -- I believe I**
7 **have to correct your -- to answer your question, I**
8 **believe you -- would you repeat your question, please.**

9 Q. Did you ever run the restructuring scenario
10 without removing the cyclical adjustment?

11 **A. I believe the right answer is, we did remove**
12 **the cyclical adjustment.**

13 Q. And I'm asking in the various iterations of
14 your model, did you ever run the restructuring scenario
15 without removing the cyclical adjustment?

16 **A. I don't recall doing that exercise.**

17 Q. Okay. Back to the figures on page nine. I
18 mean, there's -- is there any rhyme or reason about why
19 you use minus -- minus .5 as opposed to minus .4 or some
20 other value there?

21 **A. I believe there is a structure here that**
22 **provided us guidance on the likely magnitude of these**
23 **numbers. That information included the forecast**
24 **percentage change in population. The number of people**
25 **living and working in Detroit is a function of the number**

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2 **of people who live in Detroit, and it's also a function**
3 **of the overall rate of growth of employment.**

4 **Our forecast of those values determine, in a**
5 **sense, what I would call a reasonable range of values**
6 **that we plugged in as our key forecasting assumptions.**
7 **So, these numbers are, in a sense, bound by other**
8 **parameters that are in our forecast.**

9 Q. So, for each of the assumptions that you plug
10 in your model, there's actually a range of values that
11 you could have plugged into your model; is that fair?

12 **A. It's not an accurate description of the**
13 **process we used. We were going for the most accurate**
14 **point estimate of our revenue. We did not try to**
15 **construct a band confidence interval or otherwise around**
16 **our point estimate, so we did not go through a simulation**
17 **changing every parameter up by 10 percent or down by 10**
18 **percent.**

19 Q. For the numbers, though, on page nine, can you
20 tell me why the growth rate increases to minus .5 percent
21 in the specific years, fiscal year 2020 and 2021?

22 **A. That was our assumption about, in a sense, the**
23 **time it would take before the private sector started to**
24 **respond.**

25 Q. Okay. So, that's an assumption and not a

<p style="text-align: right;">Page 233</p> <p>1 R. CLINE</p> <p>2 calculation, correct?</p> <p>3 A. That is correct, but I would just add that the</p> <p>4 entire forecast is a forecast based upon assumptions.</p> <p>5 Q. Yeah.</p> <p>6 A. If we --</p> <p>7 Q. All of your forecasts in your report are</p> <p>8 forecasts based on assumptions, correct?</p> <p>9 A. All economic forecasts are forecasts based</p> <p>10 upon assumptions.</p> <p>11 Q. Yeah. And essentially what you are doing is</p> <p>12 you're trying to base all of your assumptions on your</p> <p>13 experience, correct?</p> <p>14 A. I don't believe that is correct.</p> <p>15 Q. Okay. So there's no mathematical formula for</p> <p>16 population growth rate that's generating the numbers on</p> <p>17 page nine, correct?</p> <p>18 A. It is my assumption that the total population</p> <p>19 numbers from SEMCOG have a pretty elaborate underlying</p> <p>20 structure that provided that population forecast.</p> <p>21 Q. But the growth rates that are -- the minus 1</p> <p>22 percent per year and then minus .5 in fiscal year 2020</p> <p>23 and 2021 and 0 percent in the last two forecast years,</p> <p>24 those aren't numbers generated by a mathematical formula,</p> <p>25 correct? They're assumptions.</p>	<p style="text-align: right;">Page 235</p> <p>1 R. CLINE</p> <p>2 MR. STEWART: Don't interrupt the witness.</p> <p>3 MR. SMITH: Yeah, but it's blatant --</p> <p>4 MR. STEWART: Don't interrupt the witness.</p> <p>5 He has to finish his answer.</p> <p>6 MR. SMITH: Well, this is really delaying</p> <p>7 and non-responsiveness.</p> <p>8 MR. STEWART: It's because you're asking</p> <p>9 very poor questions. Let him finish his answer.</p> <p>10 MR. SMITH: What's so poor about asking him</p> <p>11 whether the three numbers --</p> <p>12 MR. STEWART: Answer the question.</p> <p>13 MR. SMITH: -- on the page are calculated,</p> <p>14 can you tell me that?</p> <p>15 MR. STEWART: Finish -- finish your answer.</p> <p>16 MR. SMITH: Geoff, Geoff, tell me -- you</p> <p>17 just said that my question was objectionable and I</p> <p>18 want you to tell me why it's objectionable to ask</p> <p>19 him if he calculated three numbers in his report.</p> <p>20 MR. STEWART: Because he told you your</p> <p>21 question was ambiguous in the use of mathematical</p> <p>22 formulas. He explained to you why. He explained</p> <p>23 where they came from. He explained how he was</p> <p>24 going about it.</p> <p>25 MR. SMITH: Okay. Where did they come</p>
<p style="text-align: right;">Page 234</p> <p>1 R. CLINE</p> <p>2 A. Could you explain what you mean by a</p> <p>3 mathematical formula?</p> <p>4 Q. Okay. So, as an expert in this case, can you</p> <p>5 tell me what a mathematical formula is?</p> <p>6 A. What I'm having trouble with is understanding</p> <p>7 your juxtaposition of the word "assumptions" with the</p> <p>8 phrase "mathematical equations." I would describe our</p> <p>9 entire Excel model as a model that involves mathematical</p> <p>10 equations.</p> <p>11 We have plugged key assumptions into those</p> <p>12 mathematical equations, and the forecast is a result of</p> <p>13 the combination of all of those factors and all of those</p> <p>14 equations, and all of those assumptions.</p> <p>15 Q. My only question is those figures on page</p> <p>16 nine, for the growth rate, are not calculated values,</p> <p>17 correct?</p> <p>18 A. Those values began with history in Detroit,</p> <p>19 recent history. Actual numbers. We used those actual</p> <p>20 numbers to calculate ratios that then provided a guide to</p> <p>21 us on possible, probable numbers that would provide us</p> <p>22 with a forecast of the rate of growth of the number of</p> <p>23 residents employed in Detroit. We then determined what</p> <p>24 those values would be --</p> <p>25 Q. This is really --</p>	<p style="text-align: right;">Page 236</p> <p>1 R. CLINE</p> <p>2 from, Geoff?</p> <p>3 MR. STEWART: You are not allowed --</p> <p>4 MR. SMITH: Where did they come from?</p> <p>5 MR. STEWART: -- to interrupt his answer.</p> <p>6 MR. SMITH: Geoff, you are sitting here.</p> <p>7 Where did those three numbers come from?</p> <p>8 MR. STEWART: Finish your answer.</p> <p>9 MR. SMITH: Can you tell me --</p> <p>10 MR. STEWART: Finish your answer.</p> <p>11 MR. SMITH: -- on the record from what he</p> <p>12 said today? Can you tell me where those numbers</p> <p>13 came from?</p> <p>14 MR. STEWART: Are you trying to pick a</p> <p>15 fight with me?</p> <p>16 MR. SMITH: I'm just asking you --</p> <p>17 MR. STEWART: Are you trying to pick a</p> <p>18 fight with me?</p> <p>19 MR. SMITH: There's no fight, but you --</p> <p>20 your witness has obstructed the deposition, and</p> <p>21 it's wasting time for everybody here unnecessarily.</p> <p>22 MR. STEWART: The witness is doing an</p> <p>23 excellent job. The problem is the way you've gone</p> <p>24 about examining him.</p> <p>25 Now, you can finish your answer.</p>

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<p style="text-align: right;">Page 241</p> <p>1 R. CLINE</p> <p>2 A. I think I've explained the process we went</p> <p>3 through in choosing that assumption.</p> <p>4 Q. That's not my question. Here's a pen. Can</p> <p>5 you write it down on the page? What's the mathematical</p> <p>6 formula you used to generate the 1 percent wage growth</p> <p>7 rate?</p> <p>8 A. I believe all of those formulas are sitting in</p> <p>9 the Excel spreadsheet. I would have to go back and look</p> <p>10 at each of those cells to determine what was math in the</p> <p>11 model and what was the key assumption. I believe the 1</p> <p>12 percent was a key assumption that we're responsible for</p> <p>13 and we had to choose the profile for tapering it down.</p> <p>14 Or in this case, I guess, to be tapered up or</p> <p>15 down, but we had -- we controlled the timing of when we</p> <p>16 altered that rate. It is a key assumption that we used</p> <p>17 in the model.</p> <p>18 Q. When you say something is a key assumption,</p> <p>19 that means that it's not being generated by a</p> <p>20 mathematical formula, correct?</p> <p>21 A. No. It doesn't follow that that's the case.</p> <p>22 Q. All right. But the wage growth rate, that was</p> <p>23 not generated by a mathematical model, is it?</p> <p>24 A. That is correct.</p> <p>25 MR. BARNOWSKI: Is it possible to take a</p>	<p style="text-align: right;">Page 243</p> <p>1 R. CLINE</p> <p>2 below the rate of inflation, but we don't have a separate</p> <p>3 inflation forecast.</p> <p>4 Q. Okay. So, it's likely that you're projecting</p> <p>5 a real wage rate that is either zero or negative growth?</p> <p>6 A. I believe that's the implication of the</p> <p>7 numbers.</p> <p>8 Q. Okay. Page 12 of your report, you mention</p> <p>9 under the heading, C, the first paragraph there, you say</p> <p>10 that "The 40-year tax forecast should be considered a</p> <p>11 simulation of what would happen under the assumed growth</p> <p>12 rates, not a forecast of what is expected to happen."</p> <p>13 Do you see that?</p> <p>14 A. I do.</p> <p>15 Q. And would you agree with me that the 10-year</p> <p>16 forecast also should be considered a simulation of what</p> <p>17 would happen under the same growth rates and not a</p> <p>18 forecast of what is expected to happen?</p> <p>19 A. No, I would not agree with that statement.</p> <p>20 Q. Why is there a difference between the 10-year</p> <p>21 and the 40-year forecast? Is it just the length of time</p> <p>22 of the forecast?</p> <p>23 A. No, it's not.</p> <p>24 Q. What's the difference?</p> <p>25 A. The difference has to do, I believe, with the</p>
<p style="text-align: right;">Page 242</p> <p>1 R. CLINE</p> <p>2 five-minute break?</p> <p>3 MR. STEWART: Sure.</p> <p>4 MR. SMITH: Sure.</p> <p>5 THE VIDEOGRAPHER: Going off the record at</p> <p>6 3:27. This is the end of disk number three.</p> <p>7 (RECESS, 3:27 p.m. - 3:39 p.m.)</p> <p>8 THE VIDEOGRAPHER: On the record at 3:39,</p> <p>9 this is the beginning of disk number four in the</p> <p>10 deposition of Robert Cline.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. Okay. Mr. Cline, the 1 percent wage growth</p> <p>13 rate that you used, you believe is a reasonable rate for</p> <p>14 City of Detroit, correct?</p> <p>15 A. It is the one that we thought was reasonable</p> <p>16 given the recent economic challenges in Detroit.</p> <p>17 Q. And it's the best estimate in your view?</p> <p>18 A. It's the estimate that we think is most</p> <p>19 accurate over the 10-year time period, but as I</p> <p>20 mentioned, it -- I believe it -- it is, and that's the</p> <p>21 baseline forecast, 1 percent.</p> <p>22 Q. The 1 percent value for wage growth that you</p> <p>23 used is less than the inflation rate, correct?</p> <p>24 A. We don't have a separate inflation rate</p> <p>25 forecast, so it very is likely to be about or a little</p>	<p style="text-align: right;">Page 244</p> <p>1 R. CLINE</p> <p>2 starting point. As I've emphasized, our entire forecast</p> <p>3 for the 10-year period of time is solidly grounded in</p> <p>4 actual tax collections probably through FY '13 for most</p> <p>5 of the taxes. We got -- we have the right starting</p> <p>6 point, and we know what it is. We then forecasted the</p> <p>7 expected changes over the next 10-year time period. It's</p> <p>8 not really a 40-year additional forecast, it's 30 more</p> <p>9 years beyond the first 10, is I believe the accurate way</p> <p>10 to describe it.</p> <p>11 Going out beyond the first 10, we don't have</p> <p>12 the actuals as our foundation, and we have moved into a</p> <p>13 period of time which is outside of anyone's economic</p> <p>14 forecasting model that I'm familiar with. Therefore, I</p> <p>15 think it is accurate to characterize that more as a</p> <p>16 simulation based upon those assumptions.</p> <p>17 Q. And so, would it be fair to say the</p> <p>18 methodology you used for the 40-year forecast is</p> <p>19 different from the 10-year forecast?</p> <p>20 A. I would interpret the methodology we use for</p> <p>21 the next 30 years to be different from the first 10-year</p> <p>22 forecast.</p> <p>23 Q. Did you have actual data regarding the wage</p> <p>24 rates in the City of Detroit?</p> <p>25 A. Did -- we had some information, I believe, on</p>

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<p style="text-align: right;">Page 245</p> <p>1 R. CLINE</p> <p>2 wages and salaries in the Detroit metropolitan area. I</p> <p>3 believe it may have included Detroit. I don't know if</p> <p>4 Detroit was stated separately. But remember, what we</p> <p>5 were trying to get at is the growth in taxable income,</p> <p>6 not the growth in wages. We're using it as a proxy or as</p> <p>7 a number to suggest what is happening to the tax base.</p> <p>8 It's the tax base, not the wages, that are key here.</p> <p>9 Q. But you needed to get an accurate measure of</p> <p>10 wages in order to even be able to use it as a proxy for</p> <p>11 taxes, correct?</p> <p>12 A. Well, I wouldn't overemphasize that length.</p> <p>13 The tax base itself is a complex combination of earnings</p> <p>14 which are wages and salaries of employees, earnings of</p> <p>15 the self-employed, interest dividends and other sources</p> <p>16 of income. It's the combined influence of all of those</p> <p>17 factors, all of those components that make up the</p> <p>18 forecast of the tax -- the tax base, and the change in</p> <p>19 that tax base over time.</p> <p>20 So that we were no -- we were not trying to</p> <p>21 get -- we were not limited to trying to get a forecast of</p> <p>22 wages specifically; we were trying to forecast the</p> <p>23 expected growth rate in tax- -- taxable income under the</p> <p>24 individual income tax.</p> <p>25 Q. Page 14, you've got some numbers here for</p>	<p style="text-align: right;">Page 247</p> <p>1 R. CLINE</p> <p>2 assumed rates of growth.</p> <p>3 Q. Okay. So, the rates of growth that you used</p> <p>4 for the income tax bases in your model were assumed</p> <p>5 rates; correct?</p> <p>6 A. They are our assumptions about what we believe</p> <p>7 is a reasonable forecast over this period of time.</p> <p>8 Q. And the -- at the bottom, you mention that</p> <p>9 you've assumed the tax rates remain constant, correct?</p> <p>10 A. Yes. And we didn't assume that. That is in</p> <p>11 fact current law. It's not an assumption.</p> <p>12 Q. Well, you assume that current law will remain</p> <p>13 unchanged throughout the forecast period, correct?</p> <p>14 A. It's not an assumption we made. It's standard</p> <p>15 revenue forecasting procedures. You do the forecast</p> <p>16 under current law.</p> <p>17 Q. Okay. You're aware, though, that in the past</p> <p>18 the income tax rate has been higher than it is under</p> <p>19 current law, correct?</p> <p>20 A. I assume so. It probably was also lower --</p> <p>21 Q. Well --</p> <p>22 A. -- in the past.</p> <p>23 Q. Do you know what it has been?</p> <p>24 A. No, I do not. All I know is what current law</p> <p>25 is, and that's what we used in our model.</p>
<p style="text-align: right;">Page 246</p> <p>1 R. CLINE</p> <p>2 Detroit employment growth at the bottom.</p> <p>3 Do you see those? The last paragraph?</p> <p>4 A. I do. Yes, I do.</p> <p>5 Q. Okay. And you say, "Over this period the</p> <p>6 assumed structural decline in Detroit employment also</p> <p>7 wanes, falling in magnitude from negative 1 percent from</p> <p>8 fiscal year 2014 to fiscal year 2020 to minus .7 percent</p> <p>9 at fiscal year 2021, and minus .5 percent in the last</p> <p>10 years."</p> <p>11 Are those all assumed values?</p> <p>12 A. They are assumptions that are some of the key</p> <p>13 inputs in the model.</p> <p>14 Q. When we go over to page 15, "The share of</p> <p>15 Detroit employment attributable to income tax base A."</p> <p>16 Do you see that?</p> <p>17 A. I do.</p> <p>18 Q. Those numbers are assumed numbers as well; is</p> <p>19 that correct?</p> <p>20 A. I believe it is accurate to say that when we</p> <p>21 were doing these different components of the income tax</p> <p>22 base, we had actual data from the City on the amount of</p> <p>23 income for the different groups of taxpayers; residents</p> <p>24 and non-residents. So, once again, we started with the</p> <p>25 actual amount in that base, and then we grew it by these</p>	<p style="text-align: right;">Page 248</p> <p>1 R. CLINE</p> <p>2 Q. So, you didn't investigate what the income tax</p> <p>3 rate has been in the past?</p> <p>4 A. It's not an issue that was relevant to our</p> <p>5 forecasting exercise.</p> <p>6 Q. Okay. So you didn't investigate it, correct?</p> <p>7 A. We didn't address the issue because it wasn't</p> <p>8 relevant for our revenue estimate.</p> <p>9 Q. Page 15, "Wage Growth." You have a 1 percent</p> <p>10 wage growth rate there again. And then page 16, you have</p> <p>11 the -- you assume that, in Paragraph 2, that "The</p> <p>12 restructuring scenario assumes that the number of</p> <p>13 residents working in Detroit will grow at 50 percent of</p> <p>14 the rate of total job growth."</p> <p>15 Do you see that?</p> <p>16 A. I do see that.</p> <p>17 Q. Your rate of the growth in Detroit residents</p> <p>18 under the restructuring scenario is an assumption; is</p> <p>19 that correct?</p> <p>20 A. That is an assumption. The assumption is</p> <p>21 based on the reasoning that with a stabilized City of</p> <p>22 Detroit, that you will see that all residents of Detroit</p> <p>23 will benefit from a stronger overall economy, but we have</p> <p>24 residents working in Detroit growing at a slower rate</p> <p>25 than the total job growth rate in the city.</p>

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<p style="text-align: right;">Page 249</p> <p>1 R. CLINE</p> <p>2 Q. But there's no data supporting your assumed</p> <p>3 job growth rates, correct?</p> <p>4 A. It's a forecast of the future, and there is no</p> <p>5 specific data that tells us what the future will look</p> <p>6 like.</p> <p>7 Q. You also assume that wage growth will be</p> <p>8 constant in the future; is that correct?</p> <p>9 A. I believe we were holding the rate of growth</p> <p>10 to a constant rate.</p> <p>11 Q. And you acknowledge, though, that it's likely</p> <p>12 that the rate of wage growth will not be constant over</p> <p>13 the 10-year period you forecast; correct?</p> <p>14 A. I would say that is correct.</p> <p>15 Q. The page 17 of your report, down at the</p> <p>16 bottom, you have got zero population growth from 2029 to</p> <p>17 2033, 22 percent from 2034 to 2043, and then .3 percent</p> <p>18 annually thereafter. Are those all assumptions?</p> <p>19 A. I will have to check at what year -- I believe</p> <p>20 it was fiscal year 2029 when we had the -- we followed</p> <p>21 SEMCOG up through FY 2028, and then we overrode those</p> <p>22 growth rates and chose the rates that you see in this</p> <p>23 summary.</p> <p>24 Q. Okay. So, are the rates that we see in the</p> <p>25 summary of pages 17 to 18 assumed growth rates for those</p>	<p style="text-align: right;">Page 251</p> <p>1 R. CLINE</p> <p>2 minus 2 percent in fiscal year 2020.</p> <p>3 Do you see that?</p> <p>4 A. Yes, I do.</p> <p>5 Q. Were those also assumed numbers?</p> <p>6 A. Those were assumed numbers, but we have a very</p> <p>7 solid basis for understanding the dynamics of the net</p> <p>8 operating losses. It's received extensive evaluation at</p> <p>9 the national level. We know that the legacy of the deep</p> <p>10 recession is there may be a number of years going forward</p> <p>11 when firms will be making positive economic profits --</p> <p>12 positive profits, but not paying taxes because they're</p> <p>13 carrying forward unused operating losses from the</p> <p>14 recession.</p> <p>15 We had to take that into consideration in</p> <p>16 doing our revenue estimate.</p> <p>17 Q. What -- but there's no study or anything like</p> <p>18 that that gives you the structural adjustments of minus</p> <p>19 3.2 in fiscal year 2015 to minus 2.0 by fiscal year 2020,</p> <p>20 correct?</p> <p>21 A. I don't have any studies that estimate those</p> <p>22 particular numbers.</p> <p>23 Q. Okay. The -- If we go back over to page 14, I</p> <p>24 just want to -- I forgot to raise something. Detroit</p> <p>25 employment growth, if we look at the last paragraph there</p>
<p style="text-align: right;">Page 250</p> <p>1 R. CLINE</p> <p>2 years?</p> <p>3 A. Yes, they are.</p> <p>4 Q. Page 18, Paragraph A1, you mentioned that you</p> <p>5 analyzed recent history of corporate income tax</p> <p>6 collections data.</p> <p>7 Do you see that?</p> <p>8 A. I do.</p> <p>9 Q. What was the period that you looked at there?</p> <p>10 A. I may have mentioned that Michigan has only</p> <p>11 recently returned to a corporate income tax, so we had a</p> <p>12 very short period of observations there. I don't know</p> <p>13 whether it was two or three years. I would guess maybe</p> <p>14 it was a three-year period.</p> <p>15 Q. And what value of data was that that you were</p> <p>16 looking at?</p> <p>17 A. That was the reported tax collection data,</p> <p>18 reported by I believe it was the Michigan Treasury</p> <p>19 Department.</p> <p>20 Q. And where did you get that from?</p> <p>21 A. I got that from the treasury department.</p> <p>22 Q. Is it something that's publicly available?</p> <p>23 A. Oh, yes.</p> <p>24 Q. Page 18 to page 19, you applied a structural</p> <p>25 adjustment of minus 3.2 percent in fiscal year 2015 to</p>	<p style="text-align: right;">Page 252</p> <p>1 R. CLINE</p> <p>2 again.</p> <p>3 A. Right.</p> <p>4 Q. You have some cyclical adjustments there of</p> <p>5 minus .7, and then you reduce it to minus .5, and then</p> <p>6 minus .3, and then finally 0.</p> <p>7 Do you see that?</p> <p>8 A. I do.</p> <p>9 Q. Are those numbers assumed numbers, or are they</p> <p>10 calculated using the mathematical formula?</p> <p>11 A. They were numbers based upon the analysis of</p> <p>12 the data that I talked to you earlier about, from Figure</p> <p>13 2, for example, that showed that Detroit was lagging</p> <p>14 behind Michigan in economic recoveries. We built that</p> <p>15 lag -- our estimate of that lag into the forecast. We</p> <p>16 tapered the lag down assuming that after a period of</p> <p>17 expansion that differential would be smaller and smaller,</p> <p>18 and we built that into the forecast.</p> <p>19 Q. But were any of those numbers actually</p> <p>20 calculated numbers? I mean, the tapering was not a</p> <p>21 result of calculation. That was an assumption you made,</p> <p>22 correct?</p> <p>23 A. Again, what do you mean by "calculation"?</p> <p>24 Q. Well, there's no calculation that you plug</p> <p>25 some numbers into a formula and you got minus .5 percent</p>

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<p style="text-align: right;">Page 253</p> <p>1 R. CLINE</p> <p>2 from fiscal year 2016 to 2020, correct?</p> <p>3 A. We decided on what the time pattern would look</p> <p>4 like for that adjustment factor. It did not come from an</p> <p>5 econometric equation, which we did not have a time series</p> <p>6 on which to base such an equation. So, many of our</p> <p>7 assumptions are due to the fact not from the absence of</p> <p>8 an economic model for Detroit; they're based on the lack</p> <p>9 of a time series long enough to fit the equations that I</p> <p>10 believe you're referring to as mathematical equations.</p> <p>11 Q. Okay. So, you had to assume what the numbers</p> <p>12 would be in terms of the cyclical adjustment over the</p> <p>13 time period you examined; correct?</p> <p>14 A. We had no choice because the time series was</p> <p>15 too short to do a mathematical equation or a regression</p> <p>16 equation to estimate that relationship.</p> <p>17 Q. And is that also true of the initial cyclical</p> <p>18 adjustment of minus .7 percent that you had to assume</p> <p>19 that?</p> <p>20 A. That is correct.</p> <p>21 Q. Okay. What was the rationale for the tapering</p> <p>22 that you did, that you assumed in your model?</p> <p>23 A. I may have already referred to that, and that</p> <p>24 is that we saw the opening up of this gap between Detroit</p> <p>25 and Michigan as the economic recoveries came, started</p>	<p style="text-align: right;">Page 255</p> <p>1 R. CLINE</p> <p>2 picked the numbers because you didn't have enough data to</p> <p>3 do a time series analysis to do a mathematical</p> <p>4 computation to calculate numbers that you could use,</p> <p>5 correct?</p> <p>6 A. I would agree that we did not fit a regression</p> <p>7 equation to that relatively short period of time. If you</p> <p>8 had done that exercise, you still couldn't use the</p> <p>9 equation with confidence because you weren't sure -- you</p> <p>10 wouldn't be sure if you picked up the factors that are</p> <p>11 most relevant. You can always fit an equation to any</p> <p>12 number of observations. It doesn't mean because you did</p> <p>13 that, it is useful in a revenue forecasting exercise.</p> <p>14 Q. Okay. And so, as a general principle, just</p> <p>15 because you can fit some sort of regression analysis on a</p> <p>16 body of data doesn't mean that it's meaningful in terms</p> <p>17 of conducting a forecast, correct?</p> <p>18 A. That is correct, and in this particular</p> <p>19 situation, the lack of historic experience with what is</p> <p>20 going on in Detroit, what data that is available has a</p> <p>21 relatively short time horizon number of observations, but</p> <p>22 in addition to that, there is no regression equation that</p> <p>23 I could imagine fitting that would pick up the</p> <p>24 institutional details that I think are most significant</p> <p>25 in our revenue forecast.</p>
<p style="text-align: right;">Page 254</p> <p>1 R. CLINE</p> <p>2 coming up out of the recessions. Over time, with</p> <p>3 continued economic expansion, the gap tended to close.</p> <p>4 We used that insight from recent history to close the gap</p> <p>5 further out in the forecast period.</p> <p>6 Q. Okay. But the data you had available didn't</p> <p>7 tell you how to conduct the tapering or pick the precise</p> <p>8 numbers that you assumed in your analysis for the</p> <p>9 cyclical adjustment, correct?</p> <p>10 A. Again, the time series was too short to fit a</p> <p>11 regression equation that would have predicted</p> <p>12 automatically from running the regression what the gap</p> <p>13 closing rate would be.</p> <p>14 Q. Okay.</p> <p>15 A. That was, by necessity, an assumption that we</p> <p>16 used in the model.</p> <p>17 Q. Okay. So you were forced to pick some numbers</p> <p>18 to fill in here because you lacked enough data to</p> <p>19 actually do a mathematical computation; is that fair?</p> <p>20 A. No. I wouldn't agree with that statement.</p> <p>21 Q. Well, you did -- you personally picked these</p> <p>22 numbers for the cyclical adjustment during various</p> <p>23 periods, correct?</p> <p>24 A. That is correct.</p> <p>25 Q. Okay. And you picked -- you used -- you</p>	<p style="text-align: right;">Page 256</p> <p>1 R. CLINE</p> <p>2 You see it in the property tax area. You see</p> <p>3 it in the wagering area. You see it in the utility area.</p> <p>4 There are too many institutional parameters changing, or</p> <p>5 conditions changing for a regression equation to</p> <p>6 incorporate all of that information.</p> <p>7 So, you're left with a couple of options.</p> <p>8 One, you do a regression analysis, and you add dummy</p> <p>9 variables and add factors by the dozens, which are like</p> <p>10 our assumptions. Or you take the approach we did, and</p> <p>11 that is, we wanted to disaggregate all of these complex</p> <p>12 components into their individual pieces, and deal with</p> <p>13 each piece separately so we had the ability to</p> <p>14 incorporate this very specific Detroit institutional</p> <p>15 information into the calculation.</p> <p>16 So, it wasn't simply the lack of data or the</p> <p>17 lack of regressions; it was the inability of that</p> <p>18 approach, we felt, to give you accurate forecasts. We</p> <p>19 believe our disaggregated approach in the spreadsheet</p> <p>20 model gave us a better handle on what the near term looks</p> <p>21 like in Detroit.</p> <p>22 Q. Okay. And you said "disaggregated approach in</p> <p>23 the spreadsheet model." Are there written documents that</p> <p>24 reflect how you came about getting those numbers?</p> <p>25 A. The entire model has the structure of all of</p>

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2 the steps we went through in our forecast. Every -- to
3 my knowledge, every line item is identified in those
4 spreadsheets.

5 Q. Okay. The -- would it be fair to say that one
6 limitation of your forecasting analysis is that you have
7 limited data with respect to some of these numbers that
8 you're assuming?

9 A. I agree with that. That's the basic challenge
10 in this forecasting exercise.

11 Q. Okay. Is another limitation of your model
12 that you have limited data regarding the economy
13 specifically in Detroit?

14 A. It is true that we did not have a specific --
15 what I would describe as independent economic forecast
16 for the City of Detroit available to us back in 2013 when
17 we created the spreadsheet model.

18 Q. And is that a limitation of your forecast?

19 A. It's a reality of the situation we found in
20 2013.

21 Q. Now, I'm just wondering if it's a limitation
22 of your forecast that you don't have that Detroit
23 economic data?

24 A. It might have been easier if we had a detailed
25 forecast, but it wasn't available, so it wasn't an

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2 option.

3 Q. Okay. Well, I'm not -- my question isn't
4 whether it made life easier or not. I'm asking whether
5 you consider it a limitation of your forecast that you
6 don't have Detroit-specific economic data?

7 MR. STEWART: Objection.

8 THE WITNESS: I don't -- personally, I
9 would not describe it as a limitation.

10 BY MR. SMITH:

11 Q. Okay. What are some of the limitations of
12 your forecasting, other than the data limitations that
13 we've discussed?

14 A. There's the normal set of limitations on any
15 forecasting exercise. For example, determining turning
16 points, understanding these longer runs' structural
17 shifts between a state and a local region; the
18 uncertainties about the long run structural change in the
19 composition of the Detroit economy. I don't believe
20 there's anyone that would have predicted 10 years ago
21 what Detroit looks like today. It would be very
22 difficult to predict 10 years from now what Detroit will
23 look like.

24 But those are limitations that I don't believe
25 can be overcome by any statistical analysis that I am

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2 aware of. They're constraints we would all deal with in
3 doing this type of tax forecast.

4 Q. So, one limitation of doing forecasting for
5 Detroit is the fact that there's so many factors that can
6 influence the forecast over time?

7 A. I would just qualify that by saying there's so
8 many factors that are changing, that's what provides the
9 challenges to forecasting. If all of the factors were
10 constant and unchanged, it's not a problem. It is the
11 changing nature of the structure, the institutions, the
12 expectations, and the reality that current data perhaps
13 in Detroit is not as up-to-date and clean as we would
14 like it to be, but it is the best that's available.

15 Q. And another factor that's -- another
16 limitation of forecasting in Detroit is the fact
17 there's -- the data is not as good as you might like it
18 to be, or as complete?

19 A. I believe that our starting point for our
20 forecast, which is actual revenue collections, I believe
21 the numbers that the City have are solid numbers.
22 They're going to change between preliminary estimates and
23 book closing at the end of the fiscal year. But I
24 believe that we were given fairly good numbers for the
25 actual tax collections in Detroit.

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2 Q. Are there other numbers that you were given,
3 though, that you believe might be somewhat questionable
4 or there might be more of a question about?

5 A. Well, we have spent a little bit of time
6 talking about the SEMCOG population projections. Those
7 are not on the same solid basis as the actual revenue,
8 most recent revenue collection numbers from the City of
9 Detroit. So, yes, the data varies in terms of
10 completeness.

11 Q. And so, another limitation of your forecast is
12 that you had to rely on the SEMCOG population
13 projections, correct?

14 A. I wouldn't describe it as a limitation.

15 Q. How would -- what would you describe it as?

16 A. I would describe it as the best available
17 population forecast that we had access to. We could not
18 have done a better job than they do.

19 Q. Have you ever -- in doing tax forecasting for
20 a city, have you ever relied on state data instead of
21 city-level data?

22 A. Prior to the Detroit project, I haven't done
23 forecasting for a city.

24 Q. Going back to page 16, at the bottom, you say
25 that -- in the last sentence of the page, you say your

<p style="text-align: right;">Page 261</p> <p>1 R. CLINE</p> <p>2 forecast, "Assumes for the restructuring scenario a</p> <p>3 slower rate of decline in the population of this group</p> <p>4 than under the baseline scenario."</p> <p>5 Do you see that?</p> <p>6 A. Yes, I do.</p> <p>7 Q. What was the difference in the population rate</p> <p>8 of decline that you assumed?</p> <p>9 A. This is, I believe, the restructuring</p> <p>10 scenario, and consistent with our overall perspective on</p> <p>11 the restructuring scenario, we feel that the economy will</p> <p>12 start to strengthen, there will be positive growth in</p> <p>13 total employment, and we believe that those people who</p> <p>14 are residents of Detroit but working outside of Detroit,</p> <p>15 will still be declining, but at a slower rate as they</p> <p>16 perceive that the job opportunities in the suburbs are</p> <p>17 there, and that the city, as a place to live, is more</p> <p>18 attractive.</p> <p>19 So, the outward migration or flow of the</p> <p>20 people who are most mobile would be reduced under this</p> <p>21 alternative, which is residents of Detroit working</p> <p>22 outside of the city.</p> <p>23 Q. And the slower rate of population decline is</p> <p>24 an assumption that you made, correct?</p> <p>25 A. Yes, it is.</p>	<p style="text-align: right;">Page 263</p> <p>1 R. CLINE</p> <p>2 Q. That's an assumption, correct?</p> <p>3 A. That is an assumption.</p> <p>4 Q. And there's no body of data that tells you</p> <p>5 that the State corporate income tax revenue will return</p> <p>6 to a long run growth rate of 3.0 percent as opposed to</p> <p>7 some other rate, correct?</p> <p>8 A. As I mentioned earlier, the corporate income</p> <p>9 tax in Michigan is a new tax. We perhaps have three</p> <p>10 years of observations at most on how it's performing over</p> <p>11 the economic cycle. And so, no one could fit a</p> <p>12 regression equation for the actual data, so I do not know</p> <p>13 of any analyses or study that could have helped us</p> <p>14 determine what that specific rate is.</p> <p>15 Q. And do you know how that 3.0 percent -- it</p> <p>16 seems pretty precise, 3.0 percent; do you know how that</p> <p>17 number was selected?</p> <p>18 A. I know we selected that number by looking at</p> <p>19 national corporate income tax growth, what limited</p> <p>20 information we had about Michigan, and that's a number</p> <p>21 that's in the realm of our very limited but actual</p> <p>22 experience in Michigan. But I will add that we happen</p> <p>23 to -- the experience in Michigan happens to coincide with</p> <p>24 the end of the deepest recession we've had in decades.</p> <p>25 And to use that information, we would have had</p>
<p style="text-align: right;">Page 262</p> <p>1 R. CLINE</p> <p>2 Q. And do you know what the assumed difference is</p> <p>3 in the rate of population decline for the restructuring</p> <p>4 scenario?</p> <p>5 A. I don't recall what the specific differential</p> <p>6 is. I could check the Excel spreadsheet and let you</p> <p>7 know.</p> <p>8 Q. There's no body of data, though, that tells</p> <p>9 you what the assumed rate of population decline is in the</p> <p>10 restructuring scenario as compared to the baseline</p> <p>11 scenario, correct?</p> <p>12 A. There's no body of literature that I know of</p> <p>13 that deals with the forecast for the situation that</p> <p>14 Detroit faces, so I'm not aware of any studies that would</p> <p>15 have given us insight into this issue.</p> <p>16 Q. Okay. The page 19, you assume that -- if you</p> <p>17 look at that paragraph, number three, the one that's --</p> <p>18 A. Okay.</p> <p>19 Q. -- got a 3 in front of it on page 19 --</p> <p>20 A. All right.</p> <p>21 Q. -- it says that you "assume that the State</p> <p>22 corporate income tax revenues return to a long run growth</p> <p>23 rate of 3.0 percent".</p> <p>24 Do you see that?</p> <p>25 A. I do.</p>	<p style="text-align: right;">Page 264</p> <p>1 R. CLINE</p> <p>2 to determine more precisely how Michigan was coming out</p> <p>3 of the recession, so that again, there wasn't information</p> <p>4 available for us to pick a specific number. It wasn't</p> <p>5 going to be 3.1756. It was going to be rounded off</p> <p>6 because it is an assumption about the rate of growth.</p> <p>7 Q. Yeah. I'm just wondering where that 3.0</p> <p>8 number came from.</p> <p>9 A. It's our estimate of what we think is likely</p> <p>10 for State corporate income tax rate -- income tax revenue</p> <p>11 to grow.</p> <p>12 I will tell you that since the recovery from</p> <p>13 the recession, across all the states, there's been no</p> <p>14 growth in the corporate income tax collections, 0.0</p> <p>15 across all the states since the end of the recession. I</p> <p>16 don't think it would be reasonable to assume a very</p> <p>17 strong rate of growth in corporate profits going forward.</p> <p>18 We chose 3 percent as a reasonable estimate,</p> <p>19 despite the recent experience nationally that says there</p> <p>20 will be no growth in this corporate income tax. We think</p> <p>21 Michigan, as it continues to recover, and Detroit, as it</p> <p>22 continues to recover, will enjoy a slightly higher rate</p> <p>23 of growth.</p> <p>24 Q. But there's no body of data that tells you to</p> <p>25 pick 3.0 percent rather than 3.1 percent or 3.2 percent,</p>

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2 future, near term, looks like.

3 Q. Can you tell me what period of time of recent
4 wagering tax collection data you looked at?

5 A. We went back in time to look at wagering tax
6 collections. I think we looked at the numbers that are
7 reported in the CAFR for the City of Detroit, looked at
8 that change. We saw some positives, rates of growth,
9 when Detroit was operating, in a sense, in isolation,
10 without direct competition, defined by geographical
11 limits.

12 More recently, we see the decline in Detroit
13 wagering due to the economy and the deep recession, and
14 we know we're looking at an impact from the competition.
15 In our forecasts, we had to separate out the deep
16 recession that ended from the ongoing competitive impact,
17 and this is our best estimate of what that net effect is.

18 Q. Okay. But why does it go to .5 percent at
19 some years and it's minus 1 percent in some years and
20 minus 4.3 percent at another year?

21 A. I believe the correct way to describe this is
22 that we are moving in the same direction over the entire
23 10-year period of time. We're not bouncing up positive,
24 down to negative, up to positive. We are bringing the
25 industry back to what we think is a more stable, long run

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2 number.

3 A. Well, again, I know we're using different
4 terminology. It's our forecasted rate of growth that we
5 used to forecast the revenue collections.

6 Q. But is it a calculated number based on a body
7 of data, or is it an assumed number?

8 A. It's a calculated number based upon recent
9 collection experience in Detroit modified by the fact
10 that recent experience in Detroit shows a continuing
11 decrease in these revenue collections, which suggests
12 that there may be challenges to the number that we put in
13 here, but it's the best available information we had at
14 the time we made the revenue estimate.

15 Q. Okay. What was the -- what was the
16 mathematical formula you used to calculate the 1.5
17 percent figure?

18 A. We don't have a mathematical formula that
19 calculated that figure.

20 Q. Okay. So that 1.5 percent utility growth rate
21 figure was an assumed number; is that correct?

22 A. Again, I believe I would use the word
23 forecasted. You --

24 Q. I know what terminology I'd use --

25 A. Right.

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2 growth rate, appreciating the impact of increased
3 competition, allowing it to grow somewhat, perhaps with
4 the level of general spending on wagering. It's a
5 stabilized world where the competition is there but
6 doesn't continuously eat into the Detroit share.

7 Q. And you never have done any study of casino
8 competition yourself, correct?

9 A. Not of competition.

10 Q. And there's no mathematical formula you're
11 using that governs the change in the rate for the
12 wagering tax revenue over time, is there?

13 A. No, there's not.

14 Q. The -- page 25, you use utility users' tax
15 rate -- growth rate of 1.5 percent from 2019 through the
16 rest of the period.

17 Do you see that? It's in the middle of the
18 page.

19 A. I do. I'm trying to remember if we are into
20 restructuring are or we baseline at this point?

21 Q. I believe it's baseline.

22 A. Baseline. I believe you're correct.

23 Q. Okay. Is that an assumed number?

24 A. That's our forecast of the rate of growth.

25 Q. Okay. I'm just wondering if it's an assumed

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2 Q. -- but I can't say it on the record.

3 I mean, I'm just trying to get at if
4 there's -- what I'm trying to get at is if there are
5 mathematical formulas generating the number, I want to
6 know what they are. Isn't that fair?

7 A. All of the mathematical formulas that we used
8 in the model are contained in the model and visible in
9 the model.

10 Q. Okay. When you say visible in the model,
11 you're saying the Excel spreadsheet that's been produced
12 to us?

13 A. I believe that's correct.

14 Q. Okay. So, your understanding is all of the
15 mathematical formulas that are used to generate numbers
16 in your forecast contained in the Excel spreadsheet
17 that's been produced to us; is that your understanding?

18 A. That's my understanding.

19 Q. And where did you get that understanding from;
20 did you personally inspect the Excel spreadsheet or is
21 somebody telling you that?

22 A. I personally reviewed every element in the
23 Excel spreadsheet. I know when we last touched it that
24 information was embedded in the spreadsheet.

25 Q. Okay. When you say "embedded in the

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Q. Would it be fair to say that your analysis here and role in the case is a narrow one?

A. I'm not sure I understand the term "narrow" in this context. I believe this is an important part of the discussion.

Q. Okay. Do you have any publications on tax forecasting?

A. Not recently, that I remember. There may have been papers that I did back as tax research director in either Michigan or Minnesota where I talked about different aspects of the forecasting process. I used to attend annually the revenue forecasting section -- the revenue section of the Federation of Tax Administrators, FTA. I made a number of presentations to those meetings which were meetings of my counterparts in other states responsible for revenue estimation. I'm sure there are PowerPoint presentations that I made in those settings.

Q. Okay. But you haven't published any peer-reviewed studies or other literature on tax forecasting, correct?

A. I don't remember any publications I have in peer-reviewed journals dealing specifically with a forecast issue. I could go back in the records, but I'm not sure I have any of those.

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Q. Okay. The -- we talked about how you don't have any idea of what percent of the corporate income tax is collected by the City, correct?

A. 100 percent of the corporate income tax, money in the city, is collected by the City.

Q. You're saying the collection rate for the corporate income tax is 100 percent?

A. No. I'm saying the City collects the corporate income tax for the City.

Q. Okay. Well, my -- the question is, you have no idea what the collection rate is for the corporate income tax, correct?

A. Consistent with my answers earlier, we did not analyze separately the collection rates of any of the taxes we looked at in our forecast, other than an average collection rate for the property tax forecast.

Q. Okay. And so, an increase in -- a significant increase in the -- an additional revenue from a significant increase in the collection of the corporate tax rate, the income tax rate, the wagering tax rate, and utilities users' tax rate, that's an analysis that you haven't been asked to perform?

A. Nor did we do an analysis of changes in the collection rates for any tax other than the property tax.

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Q. Okay. So, if somebody wanted to get an idea of the magnitude of the additional revenue from significant increases in collection rates on the various taxes you look at, they would have to do a separate analysis and then add that number on to your forecast?

A. Or they would have to go to someone else who has done that analysis. We did not do that analysis.

Q. Okay. But it's an analysis that could be done and then you would just -- that would be additional revenue to the City, correct?

A. I would imagine it would depend upon what specific changes were made in the collection procedures and processes.

Q. Okay. But that would be an additional analysis that would have to be done to see what impact an increase in collections would have on the tax revenue available to the City, correct?

A. I believe as I've answered, we have estimated the effect under current law of a forecast of the taxes expected under current law given our assumptions about the economics. Other than the property tax revenue estimate, we have not built in any separate adjustments for collection procedures and processes in our numbers.

Q. Okay. So, somebody wanting to get a number

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for additional revenue from changes in collection processes or procedures would have to perform a separate analysis that you haven't performed, correct?

A. Or they would have to go to someone who has done that analysis.

Q. Okay. And then they would take those sums and they would add them to your forecast to get a total forecast of additional revenue including collections plus the numbers you forecast for taxes?

A. That could be, but as I've indicated, there are a number of revenue sources we were not asked to forecast. So, all -- I believe your statement would apply to any tax forecast that we did not do and were not asked to do in this -- this analysis; so there would be a number of dollars falling into that bucket that you would have to go elsewhere to get revenue estimates for.

Q. Okay. So, somebody would have to do a number of different analyses that included analyses for increased collection rates and analysis for other taxes you didn't consider, and other factors in order to get at the total potential revenue available from taxes for the City, correct?

A. I believe that analysis has already been done. I'm not -- we were not responsible for it.

<p style="text-align: right;">Page 301</p> <p>1 R. CLINE</p> <p>2 Q. Who did that analysis?</p> <p>3 A. I believe the Plan of Adjustment has the</p> <p>4 numbers that you're describing in it.</p> <p>5 Q. Okay. So, do you think the Plan of Adjustment</p> <p>6 has numbers for an increase in collection rate?</p> <p>7 A. I believe there's a specific line in one of</p> <p>8 the tables that identifies that.</p> <p>9 Q. And are there numbers in the Plan of</p> <p>10 Adjustment for taxes that you didn't consider?</p> <p>11 A. I believe there are summary categories that do</p> <p>12 include other sources of tax revenue.</p> <p>13 Q. And all of that would be additive to your</p> <p>14 analysis, correct?</p> <p>15 A. We did not do those numbers.</p> <p>16 Q. Okay. Can you give me an explanation for why</p> <p>17 the -- no one asked you to look at increases in</p> <p>18 collection rates or other taxes other than the ones you</p> <p>19 looked at?</p> <p>20 A. I believe it might have been a logical</p> <p>21 division of labor that we were asked to do what we do</p> <p>22 best and have experience in doing.</p> <p>23 Q. Do you have any idea of who did the analysis</p> <p>24 of collection rates?</p> <p>25 A. No, I don't.</p>	<p style="text-align: right;">Page 303</p> <p>1 R. CLINE</p> <p>2 MR. SMITH: And the other item is we have</p> <p>3 received some additional documents. We haven't had</p> <p>4 a chance to upload that deal with Mr. Cline and</p> <p>5 Mr. Malhotra, I believe on Friday.</p> <p>6 MR. STEWART: All right.</p> <p>7 MR. SMITH: So, I just wanted to put that</p> <p>8 on the record.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Mr. Cline, are there any areas that you plan</p> <p>11 to testify about that we haven't discussed?</p> <p>12 A. I believe we have been discussing the area</p> <p>13 that I was responsible for, and that's the preparation of</p> <p>14 the tax forecast for the tax -- major tax components that</p> <p>15 you identified earlier in your questioning.</p> <p>16 Q. Okay. And I just want to find out if there's</p> <p>17 any other area we haven't talked about that you might be</p> <p>18 planning to testify about at trial? Or have we covered</p> <p>19 all of the bases? That's basically what I want to find</p> <p>20 out.</p> <p>21 A. I don't know the answer to that question.</p> <p>22 Q. Okay. Why don't -- why don't you know the</p> <p>23 answer to that question?</p> <p>24 A. Because I'm not clear what other areas that</p> <p>25 you might question me about.</p>
<p style="text-align: right;">Page 302</p> <p>1 R. CLINE</p> <p>2 Q. Do you have any idea of who did any analysis</p> <p>3 of taxes other than the ones you looked at?</p> <p>4 A. No, I do not.</p> <p>5 MR. SMITH: Why don't we take a quick</p> <p>6 break.</p> <p>7 MR. STEWART: Here's the document, and you</p> <p>8 were right, we did not change it to correct the</p> <p>9 fact that it's going to be Mr. Hill instead of</p> <p>10 Mr. Cline. But Mr. Hill is later in the week, and</p> <p>11 you --</p> <p>12 MR. SMITH: So, Mr. Cline is not prepared</p> <p>13 to testify on topic 2?</p> <p>14 MR. STEWART: Not on 2, no. We thought we</p> <p>15 corrected it, but we did not. Anyway, it will be</p> <p>16 Mr. Hill.</p> <p>17 MR. SMITH: Okay. So, you want to change</p> <p>18 it to Mr. Hill now, is that what you are saying?</p> <p>19 MR. STEWART: Well, we'll file things</p> <p>20 formally, but we will just want to make sure you</p> <p>21 know that's an oversight. We thought we had fixed</p> <p>22 it, but it will be Mr. Hill. We'll put it in an</p> <p>23 amended document so it's clear in terms of filings</p> <p>24 what we're doing, but it will be Mr. Hill. We</p> <p>25 thought we had disclosed that sometime earlier.</p>	<p style="text-align: right;">Page 304</p> <p>1 R. CLINE</p> <p>2 Q. Okay. But you do know what you're planning to</p> <p>3 testify about, correct?</p> <p>4 A. It's summarized and presented in the report</p> <p>5 that we have been discussing.</p> <p>6 Q. All right. And that's it, right, what's in</p> <p>7 the report?</p> <p>8 A. I believe that's correct.</p> <p>9 Q. Okay. The -- are you preparing to do any</p> <p>10 other work to revise your analysis or anything like that</p> <p>11 before trial?</p> <p>12 A. We are not looking at any revisions at this</p> <p>13 point that I am -- that I am aware of, and I assume we</p> <p>14 will not be making changes.</p> <p>15 Q. Okay. There was, I think, a plan to have</p> <p>16 the -- the next CAFR, I think, is about to come out.</p> <p>17 Does that figure in your analysis at all or not?</p> <p>18 A. Well, we would certainly look at it if we were</p> <p>19 asked to do another round of revisions. At this point, I</p> <p>20 am not considering doing that.</p> <p>21 Q. I mean, does the -- do you rely on the CAFR</p> <p>22 for part of your analysis?</p> <p>23 A. I think I mentioned in answering earlier</p> <p>24 questions that the CAFRs have been one source of</p> <p>25 information, after the fact, as the best estimates of</p>

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